

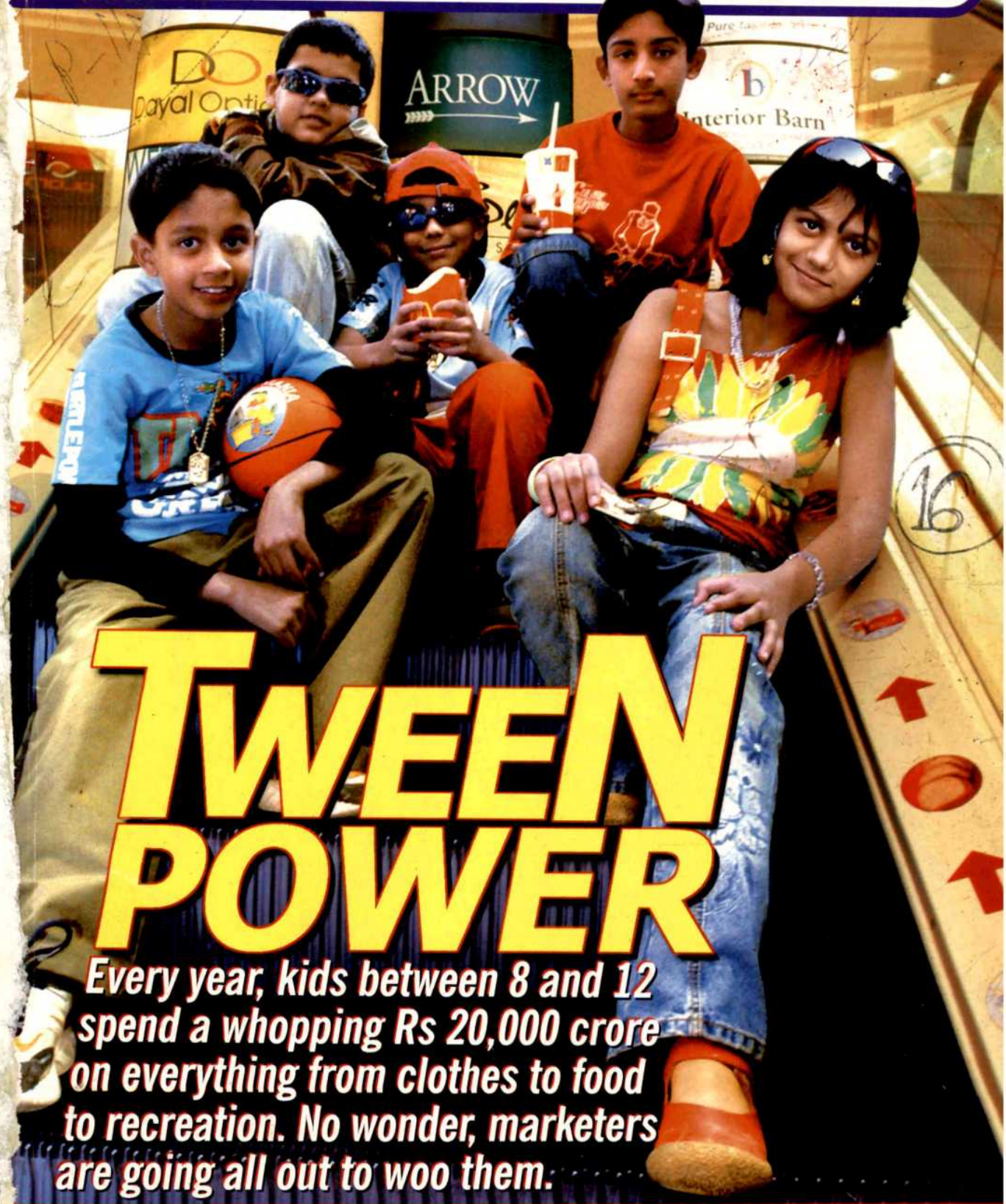
SPECIAL ISSUE

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From The Editor

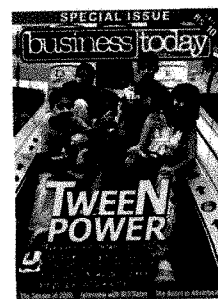
WHEN WE SAY THE SIZE OF THE MARKET FOR products and services catering to eight to 12-year-olds is worth Rs 20,000 crore, we're being conservative. Marketers themselves are more bullish, some of them estimating the value of the market at anything between Rs 25,000 crore and Rs 50,000 crore. Those numbers may not seem excessive when you consider that tweens (for "in-between": not yet a teenager; no longer an infant) today are not only directly involved in the purchase of goods and services for themselves, but are also big influencers of what the family buys—consumer durables like TV sets or home theatre systems, holiday packages and even cars. In the eight largest Indian cities alone, there are an estimated 8 million middle and high income (SEC A&B) households, with a total of around 6.4 million tweens. And across all socio-economic classifications, the total number of tweens is an estimated 120.47 million, a number that, given present population trends, is likely to remain constant over the next 10 years.

That's a size no marketer can afford to ignore. Quite apart from the numbers are the qualitative factors that characterise this market. Tweens are much more media and tech savvy than their counterparts have been in any of the past decades. Besides the de rigueur exposure to television, they are growing up with the internet and mobile telephony. Above all, in an increasingly branded world, they are a highly brand-aware lot. Our cover story package brings you an extensive survey (conducted by our partner Synovate) of the burgeoning tween market, with not just the numbers but the different attitudes and personality patterns among tweens across urban India and what these imply for marketers. Plus, straight from the marketers themselves, the strategies that they're using to target the tweens.

After hitting a volatile patch, the Sensex crossed 9,000 and, as we were closing this issue of the magazine, appeared to be staying in the neighbourhood of that number. We examine what pulls and pressures on the market are likely in 2006 and what the emerging scenarios may look like. It could be bullish, bearish or remain stagnant in the coming months but, as Principal Correspondent Mahesh Nayak finds (Sensex 2006: Target 12,000? on Page 72), a lot could depend on how fast or how much reforms take place.

In Chennai, Associate Editor Venkatesha Babu caught up with Bill Gates on his ride back from a meeting with Tamil Nadu Chief Minister J. Jayalalithaa. In 60 Minutes (Page 76), Gates speaks to us about a range of issues including the threat posed by Google, the new Windows Live software, and the really big opportunities that will open up over the next decade.

Sanjoy Narayan
 SANJOY NARAYAN





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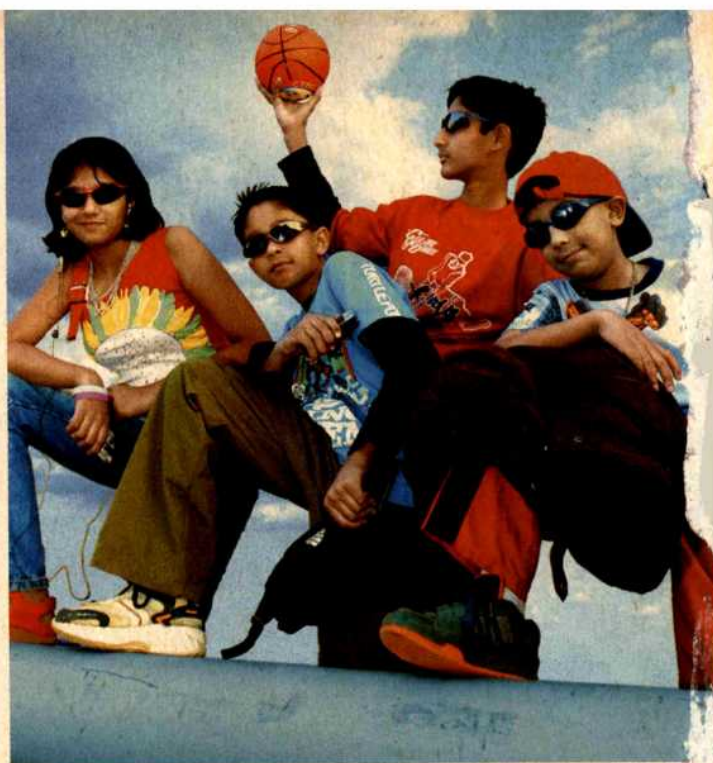
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Cover photograph by Vivan Mehra. Imaging by Kapil

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Microsoft's Bill and wife Melinda



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A demonstration at KIOCL Iron Ore



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Web Exclusives

BT-Synovate Survey On Tweens

Everyone wants a piece of the Rs 20,000 crore tween market. Here's a look at the different kinds of tweens—their aspirations, attitudes and values, involvement in purchase decisions, media habits and consumption patterns.



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BEST LETTER



Reality Check On VCs

The Cover story *India's Only Real VCs* (BT, December 18, 2005) is inspiring, but nagging questions remain. How far are VCs successful in promoting sectors crucial to take India to the next level in global sweepstakes? Many Indians making money abroad still fight shy of investing in their Motherland. Arguably, this compares poorly with the track record of Chinese entrepreneurs. Fact is, WestBridge's heroes remain a rare inspiration.

NEHA MEHTA, DELHI

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The cover story *India's Only Real VCs* (BT, December 18, 2005) shows that people at WestBridge Capital have reposed their faith in Indian business start-ups. And, despite concerns from some quarters, they are smartly executing business plans knowing well that nowhere in the world workable business ideas so swiftly emerge as here in India. But beyond IT, we also need additional investment in frontier technologies.

R.K.SUDAN, through e-mail

Track The Heroes

The cover story *India's only Real VCs* is a glorious tale. We need to hear more such stories, and more about heroes emerging from other corners of the country, not just ITians. Also, very little is heard about the blood, sweat and tears of these VCs. GeNext would be keen to follow these modern-day Samurais. We are eager to know how the firms benefiting from VCs perform. Maybe, a separate category of such companies can be tracked on a regular basis.

ISHA JOSEPH, CHENNAI

Champion Of Champions

The special feature on *The Deming Champions* (December 18, 2005), truly highlights the achievements of Indian auto sector. If things go well, the day is not far off when Indian industry will pose stiffer challenges to the current crop of

overseas leaders. Indian design skills are still untapped. A day in the life of any top executive in a Deming company must be a thrilling experience. Will somebody chronicle their innovative work?

NEETI MENDIRATTA, KANPUR

Corrections

In BT Trends (Smell A Scam, December 4, 2005), it has been incorrectly mentioned that IBM and Fidelity Investments were allotted land at discounted rates by the Karnataka government. The two companies have not been allotted any land.

In BT 500 India's Most Valuable Companies (December 4, 2005), the net profit figure of Essel Propack for 2004-05 (Rs 40.88 crore) was for the company's Indian operations alone. The consolidated global profit is Rs 80.86 crore.

The errors are regretted.

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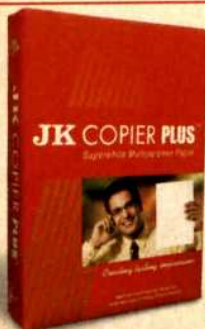
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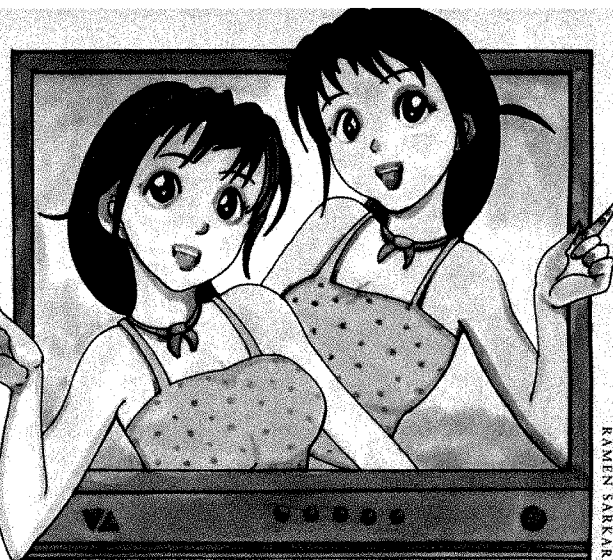
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No Kidding!

TELEVISION HAS BEEN CREDITED WITH several things, and here's one more: it may be responsible for creating the market-segment known as tweens. Created here is used in the loose sense of the term. Tweens existed (as one would have expected them to) before the onset of the television age, the period soon after World War II (the late 1940s and 1950s). Howdy-Dowdy, the first ever television serial targeting tweens (or children) went on air in the US in 1947 (NBC). And when television started beaming programmes targeting tweens, marketers realised the merits of reaching out to them. In many ways, the evolution of tweens as a consumer category was television-led. There were other things that contributed to it, too, in the US: the economic boom following ww II, for one, and the baby-boom, which turned parents into benevolent money-machines.

Sixty years after ww II, the same phenomenon is being repeated in India. To be fair, the beginnings of the tween-boom in India can be traced back to the mid-1990s. The causative factors, however, remain the same. The emergence of niche television channels targeting tweens (in this case Cartoon Network that went on air in 1995), the arrival of several me-too as well as differentiated media-offerings, an economic-boom-in-the-making, and other such. Today typical eight-to-12-year-olds in urban India who belong to the higher reaches of the SEC (socio economic classification) are aware of brands, conscious of their power over their parents, and empowered to take purchase



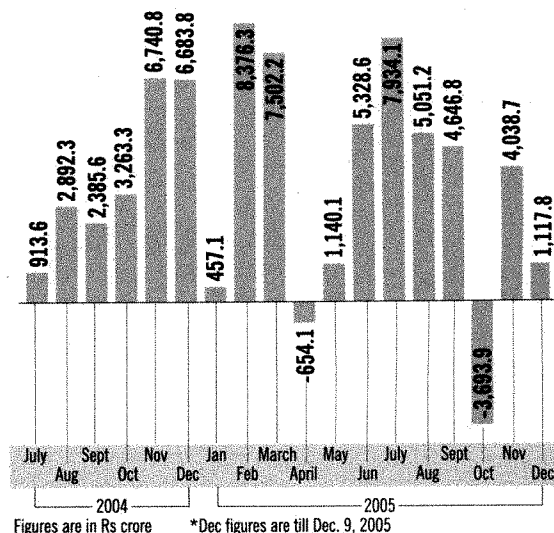
decisions (especially when it comes to products and services they will end up using). And with cable and satellite television penetrating the hinterland, tweens in rural areas are pretty much the same, minus the spending power (for now).

There are two ways to look at this phenomenon. The first is to indulge in the sort of breast-beating that liberals are prone to, lamenting the loss of childhood for these young consumers. The other is to realise the inevitability of children becoming consumers in any country that is working its way up the economic-progression curve. The emergence of tweens as consumers is an opportunity for everyone, for the television channels that helped create the segment, for the companies that hope to make money, and for parents who can help their children learn all about consumption without becoming consumerist. That, the chance to create balanced individuals and balanced consumers, is reason for celebration.

Bearish Symptoms

AFTER 9,000 IT'S ONLY NATURAL THAT THE PUNTERS start setting new targets for the benchmark Sensex—12,000, and 15,000 for 2006 are just two of them. Such naked bullishness isn't unwarranted, but it isn't as if there aren't any dark clouds hovering over Phiroze Jeejeebhoy Tower, the headquarters of the Bombay Stock Exchange (BSE). One particularly gloomy patch in the sky is courtesy the rupee's decline against US dollar, which has been a major worry for foreign institutional investors (FIIs), whose liquidity has been largely responsible for the current bull run. The domestic currency has plummeted by over 6 per cent from \$43.48 in July to \$46.21 in December (at the time of writing). Going forward, the growing current account as well as trade deficit, coupled with a strengthening

FII Inflows: Will The Boom Last?



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dollar, will put pressure on the rupee. In fact, if the forex kitty has been swelling up, it's thanks almost entirely to FII inflows, rather than foreign direct investments. Experts point out that with the economy growing at over 8 per cent, the current account deficit, which stood at \$6.2 billion (Rs 27,900 crore) in the April-June quarter can only balloon in the days to come.

A falling rupee will naturally bring down the returns of FIIs investing in Indian market. Amongst the BRIC countries, Russia, Brazil and China are running current account surpluses. Similarly, South Korea and Taiwan have current account surpluses, indicating a healthy currency situation going forward.

Yet another factor that is turning the tide against India is the measured hike in the US Fed rate from a decade-low 1 per cent to 4 per cent. With rates expected to go up to 4.5 per cent or a maximum 5 per cent, short-term speculative FII dollar inflows have received a jolt. The Fed rate hikes are boosting the

dollar, as more Asian economies begin chasing the US treasury for higher returns.

According to Sebi statistics, there is hardly any growth in the FII inflows in 2005 as compared to 2004. The FIIs made net purchases of Rs 38,965 crore in 2004 while the net purchases so far have touched Rs 38,964 crore (till December 11). In the same period, the Sensex has jumped by over 35 per cent to 9,133.67 points.

What's more, globally interest rates are moving up which is also signaling a revival in the debt market; this results in significant shifts in asset allocation. In the meanwhile, India Inc is in expenditure mode, which could bring down the return on equity and the return on capital employed. The rising interest rates both domestically and globally will also put pressure on the margins. In fact, South Korea, Indonesia, Thailand and Singapore have seen upward movements in interest rates. Are the FIIs watching?

The Renaming Bug

THERE'S MUCH CONSTERNATION, IN SOME quarters, over Karnataka Chief Minister Dharam Singh's recent announcement that Bangalore would soon take on its original name, Bengaluru. Some of the protests have emanated from individuals worried about the impending obsolescence of the neologism Bangalored, a term they have apparently just learnt to use in sentences. Others are worried that India's #1 destination for IT companies will lose some of its luster. Fact is, in democratic India, name-changes are a way of life. Some never catch on; New Delhi's attempts to get people to say Rajiv Chowk instead of Connaught Circus or Connaught Place have flopped, just as Chennai's attempts to get them to say Uttamar Gandhi Salai instead of Nungambakkam High Road. Others have fared better. Bombay is now Mumbai, Madras, Chennai, and Calcutta, Kolkata. All are changes that evoked a considerable amount of ire, and provoked the usage of reams of newsprint, just as the Bangalore-Bengaluru thing will. Yet, apart from the fact that the change in name has, in each case, been surprisingly accompanied by a fall in the quality of urban infrastructure, nothing much has changed. Mumbai remains India's commercial capital; Kolkata would like to think it remains its cultural one; and Chennai remains, well, Madras. If the Chief Minister of Karnataka wants to change the name of the state's capital, it is within his rights to want to do so. And if the Chief Minister of Karnataka wants to change Bangalore's



Bangalore-bound: Or Bangalore Unbound?

name then, it is a move that should be applauded. This, after all, may well be the first thing the man has done for the city since he took over the reins of the administration in mid-2004. The importance of this decision also explains why Singh may have hitherto neglected Bangalore (the name-change must have been weighing on his mind). Now that he has got that toughie out of the way, maybe he will get on to the easier tasks at hand that concern such trivialities as power, water, pot-hole free roads, over passes, better traffic management and the like. Bravo, Mr Singh. It takes a brave man to opt for complete change. ■

DEEPAK G. PAWAR

Trends

China, Watch Out

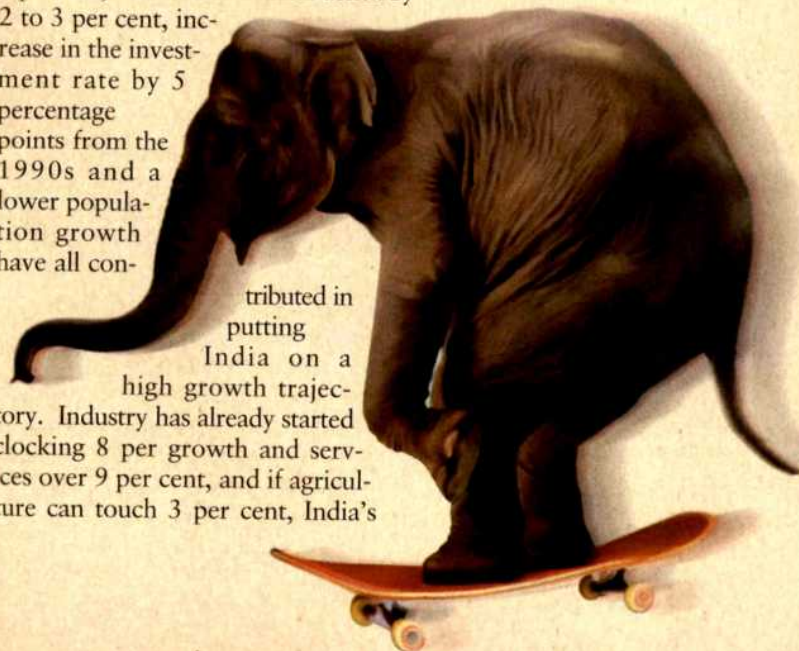
As the GDP clocks 8.1 per cent growth in the first half of 2005-06, hopes surge of India catching up with China. But will it? ASHISH GUPTA

DESPITE A GOVERNMENT WHOSE POLICY-MAKING IS HELD HOSTAGE by Left partners, is the unthinkable happening? Has India's economy acquired a momentum of its own? Has it reached an inflexion point where a double-digit growth—or, at least, a sustainable 9 per cent rate—is within reach? As the country took stock of its GDP growth in the second quarter of this financial year, more than a few were surprised by the 8.1 per cent rate it had racked up (same period last year, the figure was 6.7 per cent). Prime Minister Manmohan Singh talked of pushing the growth to 10 per cent, but his chief growth strategist Montek Singh Ahluwalia and Finance Minister P. Chidambaram, spoke of a more realistic 8 per cent plus rate.

The good news: There are others outside the government who believe that the economy is on a roll. And here we are not just talking of stock market investors, who pushed the benchmark Sensex past the 9,000 mark a day before Chidambaram presented his economic scorecard to Parliament, and now have their sight set on 12,000. "An 8 per cent GDP growth is already here with all its built-in populism and without any additional reforms," notes economist Surjit S. Bhalla. His logic: a fall in interest rate of nearly 4 per cent, a reduction in fiscal deficit by

2 to 3 per cent, increase in the investment rate by 5 percentage points from the 1990s and a lower population growth have all con-

tributed in putting India on a high growth trajectory. Industry has already started clocking 8 per cent growth and services over 9 per cent, and if agriculture can touch 3 per cent, India's



INSTANT TIP

The fortnight's burning question.

Q. WILL THE RUPEE BOUNCE BACK?

No. Jamal Mecklai, Chief Executive Officer, Mecklai Financial

The sentiment in the market is bearish. Rising current account deficit in the country and the dollar strengthening on back of rising US interest rates will see rupee further weakening from the current levels. A weaker rupee isn't bad, it signals economic growth.

Yes. Partha Mukherjee, Head of Treasury, UTI Bank

The recent weakness is due to corporate demand and on the back of oil imports. However, the inherent strength of the rupee and sustained inflows of foreign currency will see the rupee bounce back from its current lows. In the next one month, I think the rupee will quote at Rs 45.75/\$ levels, while in the next 3-6 months, it may bounce back to the levels of Rs 45/\$ to Rs 45.50/\$.

No. U. Venkatraman, Head of Forex and Money Market, IDBI.

The rupee's movement will depend on the dollar's performance versus other major currencies, India's trade deficit and crude prices, which are not showing any signs of slipping below \$55 or Rs 2,475 per barrel. Look at India's trade deficit: There is an average deficit of \$3 billion or Rs 13,500 crore per month. If this is not matched by the corresponding capital flow, it will impact the rupee exchange rate.

COMPILED BY MAHESH NAYAK

growth rate will be clearly on the 8 per cent curve. Chidambaram said as much during his review, when he pointed out that had mining and electricity production not suffered, 2005-06 would have ended with an 8 per cent growth, and not 7 per cent as now expected.

In a way, Chidambaram put his finger on the problem with India's 8 per cent growth story. There are key sectors like manufacturing and agriculture where growth is retarded by all the well-known problems: poor infrastructure, especially the dismal state of the power sector, poor investment climate, rigid labour laws and little movement in the reform agenda. "The worrying part is the investment climate. Very few entrepreneurs are investing in greenfield projects and hence there's little scope for growth in employment," notes Subir Gokarn, Chief Economist at credit-rating agency CRISIL. Chidambaram red-flagged the investment pace, too, saying it would be difficult to sustain a growth rate above 8 per cent given the investment rate of 26.3 per cent.

So, how is India likely to catch up with China's rates of growth? Ironically, not because India will suddenly start pushing 10 per cent, but because



India is far better placed than China to keep its growth up, at least for another decade or so

China's stunning growth seems more likely to slow down. For instance, Bhalla says, a 10 per cent upward revaluation of China's currency yuan could shave 1.4 per cent off its annual growth. A high degree of export dependence—80 per cent of all goods produced is exported—makes it vulnerable to a slowdown in the US and European markets. Also, its FDI performance is unlikely to get any better. "No economy can increase its savings rate from the current 45 per cent and garner more than \$50 billion (Rs 2,25,000 crore) a year in FDI every year. Its growth can only come down," says Nagesh Kumar, Director-General, Research and Information System for Developing Countries.

India, by contrast, has all the chances of attracting more FDI and improving its savings rate of 28 per cent. More importantly, as Kumar points out, unlike China, India's working population as a percentage of its total population will continue to grow in the next 25 years. So, incredible as it might seem, the Indian economy is far better placed to keep its growth up at least for another decade or so.

THE HONG KONG HO-HUM



Commerce Minister Nath (left): Getting complaints already

BY THE TIME THIS ISSUE HITS THE NEWS STANDS, THE Hong Kong round of WTO talks would only be midway. But it's a foregone conclusion that there will be little headway in talks between the developed and developing countries. Days ahead of the meeting, WTO chief Pascal Lamy talked of "recalibrated expectations", and Union Commerce Minister Kamal Nath seemed to echo him when he said that "there is not enough time left and too many divergences...(and hence) the need to contain expectations". Why is there so much pessimism around ahead of the Hong Kong ministerial? Simply because there's little agreement on major issues. Take a look:

THE FLASHPOINTS

Agriculture: The US wants developing countries to open up their market for farm products, and the EU has linked tariff cuts on its own farm products to similar reductions from India on industrial goods and services. India isn't open to risking livelihoods of millions of its farmers, but wants EU to set a deadline for cutting its own farm subsidies.

Non-Agricultural Market Access: The US and EU want a deadline for zero tariff in select selectors, besides lower rates generally. India wants a longer deadline and less deeper cuts in tariff. Developing countries also want tariff- and quota-free access to developed markets.

Services: The US and EU want greater access to services markets in developing countries, with the EU asking for equal status for foreign companies vis-à-vis domestic firms. India, on its part, wants freer movement of professionals, easier trans-border supply of services and mutual recognition of professional degrees.

ASHISH GUPTA

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Win-win Deals

Contract farming is here to stay.



SOURIK KAR

A rich harvest: Some day, they too will work for a company

DNYNESHWAR KHILADI, A FARMER IN MANCHAR, A VILLAGE ABOUT 60 km from Pune, is bullish about the future. He is among the 150 farmers in this hamlet contracted by Sami Labs Limited to grow a medicinal herb called *Coleus forskohlii*, which promises to fetch a gross income of Rs 40,000 per acre and a net profit of Rs 25,000. That's a huge improvement over approximately Rs. 7,000 (per acre) he earned till last year, growing potatoes and onions on his two-acre plot. "The company will buy all my produce; so my income is guaranteed," he says.

FieldFresh Foods, promoted by the Mittals of Bharti Group, Pepsi and the Mukesh Ambani-led Reliance Group have also jumped on this bandwagon. The business model presents a win-win situation for everyone concerned. Guaranteed offtake by the contracting companies and the absence of middlemen—the scourge of Indian agriculture—assures the farmers of higher incomes. The company gains as it gets crops of a standardised quality at pre-determined prices.

Facilitating this transition to contract farming is the Agriculture Ministry's initiative to get all the states to amend the Agricultural Produce Market Committee Act, thus, allowing private players to enter the fray. About 60 per cent of the states have already done so, and the rest are expected to complete the formalities over the next quarter. Says Rakesh Mittal, Director, FieldFresh Foods, which has about 1,500 acres under contract in Punjab, Rajasthan, Uttaranchal and western Uttar Pradesh: "Such deals can increase farmers' incomes by a factor of 2 to 3." Adds Abhiram Seth, Executive Director, Exports & External Affairs, PepsiCo India: "Both productivity and income go up." PepsiCo's farmer-partners typically earn Rs 50,000-60,000 per acre for citrus crops compared to Rs. 8,000-10,000 per acre for potato. Affirms Muhammed Majeed, Chairman, Sami Labs: "It makes good business sense and is also an act of social responsibility."

AHONA GHOSH

KILLING THE PENSION BILL



SIPRA DAS

CPI(M)'s Prakash Karat: Left has its way

THE PENSION REGULATORY AND DEVELOPMENT Authority Bill 2004, withdrawn from Parliament under pressure from the Left parties, may actually be passed in the current session of Parliament. The government believes its amendments have addressed most of the Left's apprehensions. The Bill makes it mandatory for private insurers launching pension plans to invest only in government securities or debt funds. Contributors, therefore, need not worry that their money will be frittered away on the stock market.

Secondly, it has introduced a 26 per cent cap on FDI in the Bill itself, instead of leaving it to the discretion of the pension regulator. The funds collected will also have to be invested within the country. These, the government expects, will assuage the Left's fears of foreign MNCs siphoning money out of India.

Lastly, the government has already launched the "defined contribution pension scheme" from January 1, 2004. Earlier, pensions were based on a "defined benefit plan", where the government made all the investments and not the individual. Therefore, the Left hostility to this provision in the amended Bill is really a case of crying fire after the house has burnt down. "Since all their concerns have been addressed, there is little reason for the Left to block the Bill now," says Kapil Mehta, VP, Max New York Life. True. Too much time has already been lost.

ASHISH GUPTA

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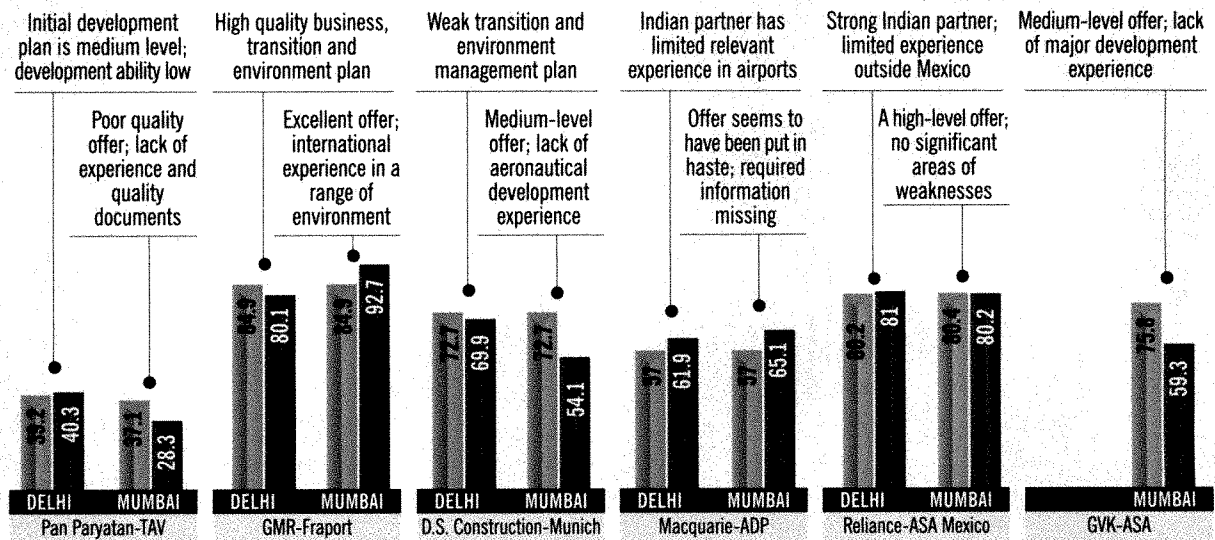
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Airport Bids Hit Air Pocket

Allegations of wrongdoing dog the bids for the Delhi and Mumbai airports.



TECHNICAL BIDS: THE SCORECARD



Figures are percentage of marks score at least 80 per cent of marks. And with two consortia being the only eligible ones, the need for competitive financial bids does not arise. Mumbai and Delhi Airports can be split between the two eligible parties, depending on whose bid is lower

Management capabilities

Development capabilities

To sail into the the financial-bid phase, a consortium is required to

Source: Note to empowered group of ministers

PINAKI PAUL

THERE'S A SCENT OF A SCAM. The evaluation of technical bids for the Mumbai and Delhi airports is learnt to have thrown up only two qualifiers—the Reliance-Mexico Airport consortium and the GMR-Fraport combine. Only these two, out of six bidders, secured more than the qualifying marks of 80 per cent on various parameters like track record in operating airports, construction and infrastructure, real estate development, duty free-retailing and financial and management. Reliance's partner, Mexico Airport, was ranked 119 among the world's airports by the Skytrax Airport of the Year Survey, 2005. But the combine still managed to edge out bidders like D.S. Construction-Munich Airport; the latter was ranked fourth in the same survey, which, however, is based on opinions of airline passengers. The evaluation was done by the government's consultants,

Airplan and ABN AMRO.

One of these consultants is also allegedly advisor, financial manager and marketer to one of the two qualifiers. There's more: the CPI(M) and the RSP have alleged that law firm Amarchand & Mangaldas & Suresh A. Shroff & Co, legal consultants appointed by the government, represents Reliance and its promoters in various legal matters. A spokesperson of the law firm declined to comment on the matter.

The bidding process has had more than its share of dramatic turns. Reliance (now Anil Dhirubhai Ambani Enterprise) hadn't yet roped in a partner by May 24, 2005, the deadline set for the purpose. But two hours before midnight that day, the Civil Aviation Ministry faxed a letter to all pre-qualified bidders, extending the deadline to June 3, 2005. Then, the Request For Proposal (RFP) was modified on August 30, 2005, giving bidders

only 15 days to submit their bids. The Changi-Bharti consortium found the amended conditions unacceptable and pulled out.

The empowered group of ministers headed by Defence Minister Pranab Mukherjee will take a decision on the matter on December 19, 2005, after an inter-ministerial group of secretaries reassesses and revalidates the technical bids. But with the air thick with controversies, there's every chance of the bidding process being scrapped. "If that happens, the government should simply forget about the 2010 deadline," says a consortium member.

Says G.R. Gopinath, MD, Deccan Airlines: "London has five airports; the smallest handles more flights than Mumbai. Why are we bent on building private monopolies? Why can't we have competing airports chasing us like we chase our passengers." Why not, indeed?

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Q&A

"Organic Growth Is Our Overall Strategy"

AS AN ORDAINED PRIEST, STEPHEN GREEN OFTEN gets on to the pulpit in his neighbourhood church in London. A minor problem: It doesn't pay him anything. Lucky, then, that Green has a week-day job: He is the Group CEO of HSBC. In India recently with the bank board, Green, 57, who moves up as Chairman next May, spoke to BT's R. Sridharan on business and religion. Excerpts:

"The economic modernisation of Asia is the most important seismic consequential act in the globalisation..." this is a quote from one of your recent addresses. I can't think of anyone else so bullish on Asia.

If you take a historical perspective, then around the beginning of the 19th century, China and India were the two largest economies. Since then, Europe and America grew and there was stagnation in parts of Asia. But what's happening now, and will continue to happen over the next few years, is a rebalancing back to the balance that existed before. If you take Asia, it accounts for half the world's population, and other things being equal, it should account for half the world's economy.

Do you expect HSBC, as a bank founded in Asia, to have an edge in tapping Asian revival?

I think it's true to say that we have a good franchise based on brand in the Asian context. It's a good platform to build on. But I am not naïve about competition. There are many other financial services institutions that see the same things that we see.

At least in India, organic growth will be what drives HSBC till 2009, when bank M&As will be allowed. What are the new services you are looking at? Insurance...

We believe that in the context of Indian personal financial services market, there are many things we can do. We have been growing our mortgage business significantly, we have increased our credit cards business. As for new businesses, we will look at financial services broadly in the context of a rapidly growing economy. So absolutely, we will look at insurance.

Is HSBC bitter about the UTI bank episode?
Not at all.

So you plan to stay invested?
That's absolutely the case.



VIVAN MEHRA

Will you consider acquisitions once regulations allow you to?
We see organic growth as the core of our strategy, that's what we'll do Monday-through-Friday. If proposals come our way, we will, of course, consider them.

Switching tacks, I am told that you are an ordained priest and that you still read sermons at your neighbourhood church.
I do, yes. Not every Sunday but, yes, I still do that.

When was the last time?
The last time was about three weeks ago.

How do you balance commerce and religion. What comes first?

That isn't an either or question. For anybody who has a commitment, that underpins everything else. It underpins the way you approach life. Whether it's commerce, your family, or your social activity.

HSBC is committed to being carbon neutral. I am not being sceptical here, but do you think your shareholders will reward the bank for it?

I think our shareholders do appreciate our commitment to the environment, and our commitment to education around the world. I think shareholders increasingly expect companies such as ourselves—and not just in the financial services industry—to have a responsible commitment in the communities in which they do business. And so far as the environment is concerned, there can be nothing more important for all of our children, grandchildren and great grandchildren.

Finally, I believe there are others in HSBC who get paid more than you do. As the CEO, how do you react to it?

I don't mind at all. I think people should be paid for what they contribute and that truly needs to reflect market realities in different businesses and in different countries where they operate. Money is not everything.

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"India Is More Competitive Than China"

VICE-PRESIDENT, GLOBAL BUSINESS ENVIRONMENT, AND HEAD OF ITS *Future Global Scenarios Group* at Royal Dutch Shell plc, Albert Bressand, spoke to Business Today's K. Sai Srinivas on what his crystal ball has to say. Excerpts:

On the debate over alternative fuels: This issue cannot be separated from the debate over nuclear energy. Coal is another obvious source of energy, but we need to develop environment-friendly technologies to tap it. Gas is another option, but for India, Qatar and Iran may not be the best sources. And sexy alternatives like solar and wind energy, I think, are over-emphasised.

On who will control oil: The control of oil will vest in the hands of the global markets, some of them energy markets, other financial markets and markets for carbon. I think world power will reside in a network of such markets.

On India and China: I see an integration of South Asia and East Asia, two regions that are now very distinct and separate. India is playing the competitiveness card like a developed country; it is going for productivity gains and high value-added activities in a way most Chinese industries still do not. Groups like the Tatas and the Mahindras, among others, are several steps ahead of their Chinese counterparts when it comes to developing their brands and their global presence. A large part of the Chinese growth story is led by foreign-owned companies operating in China.

On the future of the labour market: We are moving towards an integrated global labour market where companies outsource and offshore to and access labour from different markets. Some of that labour is in countries like China where some essential mechanisms, like market determinants for the yuan-dollar or the yuan-euro exchange rates, are not yet in place. So, the key question in our scenarios is the extent to which the market logic will prevail; depending on the extent, salaries in currently low-cost countries can rise rapidly, and ultimately, lead to a much more integrated global labour force. India has its foot in both systems.

The country has low-cost but highly sophisticated labour, and people operate under open market conditions.

So, you can expect the labour market in India to fully reflect world demand and this will lead to relatively rapid increases in salaries. Therefore, India's strategy has to focus on preparing for higher value-added functions and not prolonging the period when cheap labour provides the key competitive advantage.

Shell's Bressand:
Bullish on India

THE CLAUSE 49 BONANZA

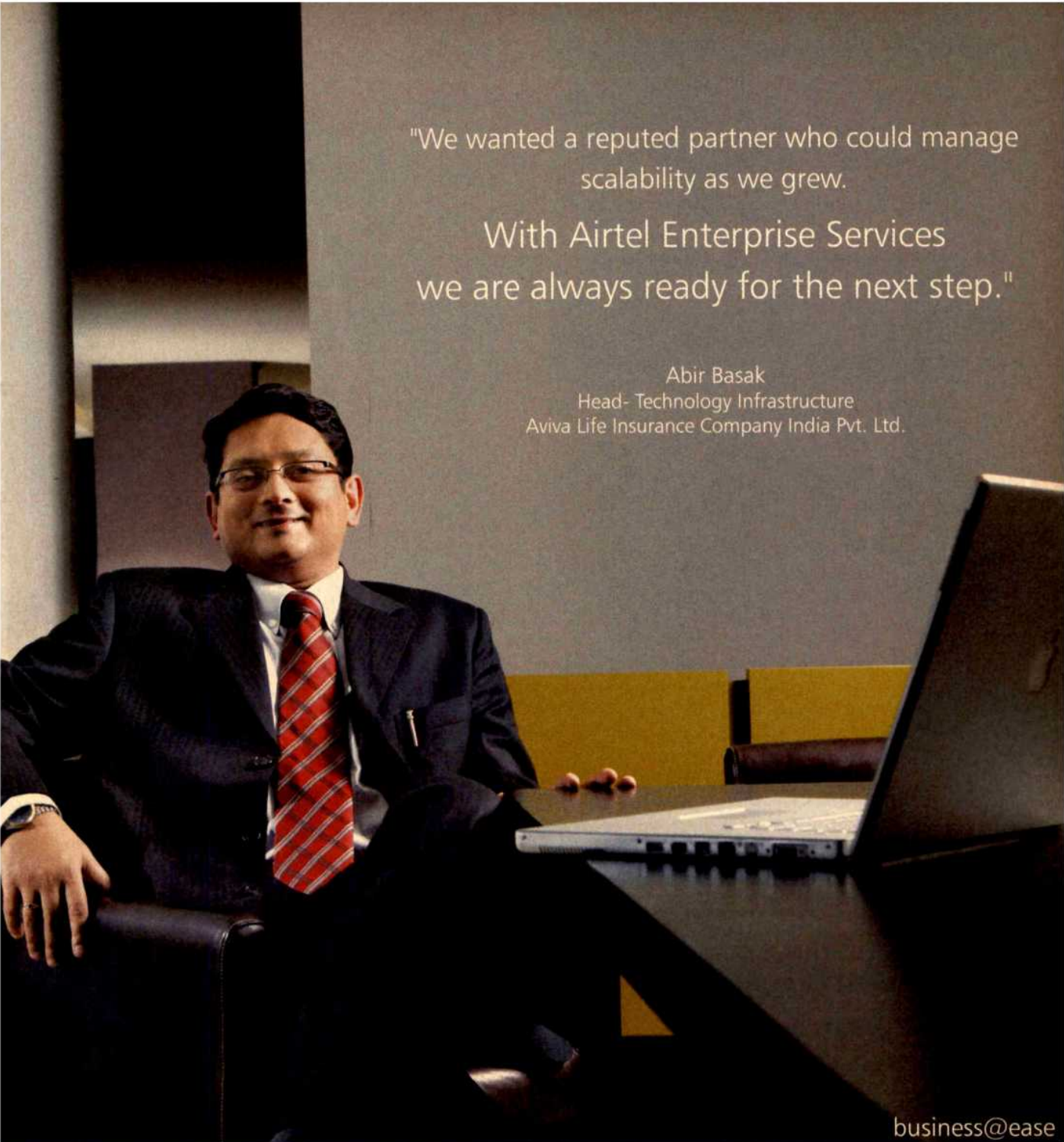


SHIVAY BHANDARI

ICRA's Choudhary: Business unlimited

INDIA INC HAS ONLY THE REMAINING DAYS OF December to fall in line with the provisions of Clause 49 of the Listing Agreement with the stock exchanges laid down by SEBI. The clause, which makes it mandatory for all listed companies to have at least 50 per cent independent directors on their boards, kicks in on January 1, 2006. SEBI Chairman M. Damodaran has made it clear that "there will be no extension of this date, come hell or high water". The implementation of Clause 49 is expected to lead to greater transparency in the functioning of companies; CEOs and CFOs will, henceforth, be held accountable for all acts of omission and commission. Non-compliance will result in stiff penalties, ranging from fines to delisting of the offending companies. IT, insurance and risk assessment companies see this as an opportunity. Says P.K. Choudhary, MD, ICRA: "We can guide companies on the issues involved. Our governance model focusses on substance rather than form." Private insurance companies also see a huge market emerging for their Directors and Officers Liability (D&O) policies. These cover directors, officers and employees against any claims made against them for "wrongful" acts. "A D&O policy covers the cost of investigation or legal expenses incurred on any investigations by the regulator," says Shiva Prasad Krishnan, Head (Liabilities), ICICI Lombard. Similarly, IT companies like ISG Novasoft, a K.K. Birla enterprise and Newgen Software Solutions have also lined up compliance software that automates the risk management and compliance process.

ANAND ADHIKARI

A man in a dark suit, white shirt, and red patterned tie is sitting in a black leather chair at a dark desk. He is wearing glasses and has a watch on his left wrist. A laptop is open on the desk in front of him. The background is a simple office setting with a grey wall and a yellow chair.

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Abir Basak
Head- Technology Infrastructure
Aviva Life Insurance Company India Pvt. Ltd.

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CSFB's Nemesis

SEBI hauls up the securities firm for a sin of yore.



YASHWANT NEGI

SEBI's Damodaran: Tough guy

FOR CREDIT SUISSE FIRST BOSTON (CSFB), stock market regulator SEBI's latest order couldn't have been worse timed. Some top CSFB officials were said to be in Mumbai last fortnight to try to restart their India operations, after SEBI refused to renew the FII license of CSFB (Mauritius). Earlier, in April 2001, SEBI had suspended CSFB India on charges of price manipulation. The recent stricture against CSFB, involving a fine of Rs 10 lakh, relates to alleged

short selling of Reliance Industries shares in December 2002. The alleged violation took place at a time when CSFB (Mauritius) (to be precise, it's then subsidiary Kallar Kahar Investments) was exiting India. Even today, FIIs are not allowed to short sell securities. They can transact only on the basis of securities bought and sold.

SEBI officials wouldn't comment on the issue, and all that a CSFB spokesperson would say is that "this is a historic issue and it has been going through the appropriate channel at SEBI. A conclusion has now been reached and we have nothing further to add on the matter". How soon SEBI okays CSFB's return to India is hard to say, but with the stock market roaring, the FII must be licking its wounds. And, by the way, there have been reports that SEBI may allow institutions to short sell in the market. If that happens, CSFB's travails would have been in vain.

MAHESH NAYAK

Head Hunting Gets Global

Another global search firm opens shop in the country.

TEN YEARS AFTER IT FIRST CONSIDERED COMING INTO INDIA, SPENCER Stuart—one of the three largest executive search firms—has finally decided to open shop. The US-based firm, with presence in 26 countries, has roped in Anjali Bansal from Egon Zehnder, where the 36-year-old Columbia B-school alumna was in charge of the

SpencerStuart

private equity practice. Ironically, Spencer Stuart's first choice 10 years ago was the duo of Rajeev Vasudeva and Sanjiv Sachar, who now head Egon in India. Besides, more recently, the firm was in talks with Hunt Partners, but things didn't work out. With the American market having only recently recovered from a long slump, Spencer Stuart must have figured that the booming search market in India was important enough to go solo in.

AMANPREET SINGH

INDIA'S AIRCRAFT BUYING SPREE



It's been a record year in terms of the number of aircraft purchased/ordered by airlines in India. Here's a look at the \$1-billion-plus orders:

Air-India

15 Boeing 777-300ER
8 Boeing 777-200LR
27 Boeing 787-8 Dreamliners
Cost: \$8 billion (Rs 36,000 crore)

Jet Airways

10 Boeing 777-300ER
10 Airbus A330-200*
10 Boeing 737-800
Cost: \$7 billion or Rs 31,500 crore*

IndiGo

100 Airbus A320 family aircraft ^
Cost: \$6 billion (Rs 27,000 crore)

Kingfisher Airlines

5 Airbus A380-800
5 Airbus A350-800
5 Airbus A330-200
4 Airbus A319
30 Airbus A320 family aircraft ^
20 ATR 72-500
Cost: \$3.9 billion (Rs 17,550 crore)

Air Deccan

30 Airbus A320
30 ATR 72-500
Cost: \$2.5 billion (Rs 11,250 crore)

Indian Airlines

19 Airbus A319
4 Airbus A320
20 Airbus A321
Cost: \$2.1 billion (Rs 9,450 crore)

SpiceJet

20 Boeing 737-800
Cost: \$1.2 billion (Rs 5,400 crore)

* Including options ^ Break-up not available
Caveat: All prices are either list prices or estimates; aircraft orders do not include those currently leased; orders also include sale-leaseback and signed contracts with leasing companies for brand new aircraft.

COMPLIED BY KUSHAN MITRA

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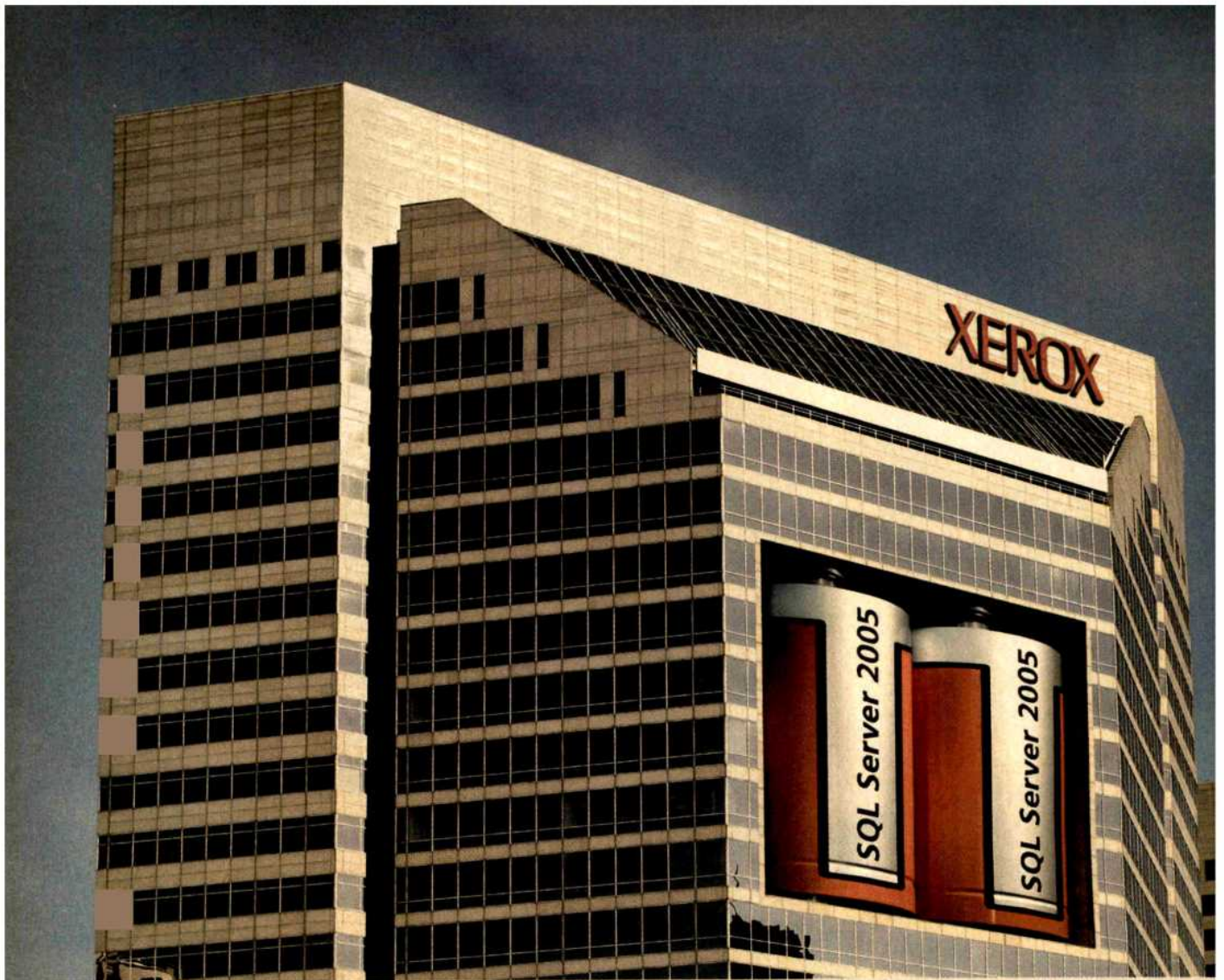
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From Boil To Simmer

Oil prices are unlikely to go below \$55 per barrel despite higher inventories and supplies.

GLOBAL CRUDE OIL PRICES FELL nearly 17 per cent from a high of \$67.26 (Rs 3,026.70) per barrel in August to \$56 (Rs 2,520) per barrel in the last week of November on the back of high inventories and adequate supplies by the Organisation of Petroleum Exporting Countries (OPEC) countries. But large-scale punting by speculators, ahead of the winter in the US and Europe, has resulted in oil prices moving up again. In the first eight days of December 2005 alone, the spot prices of IPE Brent crude have jumped nearly 5 per cent to \$58.67 (Rs 2,640.15) per barrel from \$56 levels. In intra-day trades, crude oil prices have again crossed the \$60 (Rs 2,700) per barrel psychological level. What does the future hold for this critical commodity?

Global crude oil prices are on the rise once more despite concerted efforts by various important players to talk it down. OPEC has said it will be comfortable even if crude prices fall to \$40 (Rs 1,800) per barrel levels. The US Department



Brrr it's cold: But crude will stay hot

of Energy, too, has got into the act; it has repeatedly said its oil stockpiles position is comfortable and can meet any higher-than-normal demand during the approaching US winter. The department also announced that US heating oil

supplies were 5.3 per cent above their five-year seasonal average and that crude and gasoline inventories were also up. OPEC is also pumping more oil this year, leading to increased supplies and at least partially compensating for the reduced output of crude from the Gulf of Mexico.

However, the tone of the global crude market this month has been distinctly contrarian. Says Gurunath Mudlapur, Managing Director, Atherstone Institute of Research: "I feel crude oil prices will touch \$70 (Rs 3,150) per barrel over the next three months due to speculation by punters ahead of the winter in US and Europe." Besides, robust demand for oil from both the developed economies and developing ones like China and India will ensure that crude prices will continue to simmer, even if they don't come to a boil. Therefore, don't let OPEC's sweet talk fool you; oil prices are unlikely to fall below \$55 (Rs 2,475) per barrel in the near-to mid-term.

MAHESH NAYAK

KILLING FIELDS



ICICI's Renuka Ramnath: Big gains

PPRIVATE EQUITY PLAYERS ARE AMONG THE MAIN BENEFICIARIES OF THE SPATE OF INITIAL PUBLIC offers (IPOs). The investors, who had entered unlisted companies at low prices, are cashing out at hefty premiums following the post-IPO listings. Says Aditya Sanghi, Country Head (Investment Banking), YES Bank: "Private equity investors are encouraging companies to list even though they may not need the capital infusion immediately." Adds a merchant banker at a foreign brokerage firm: "They are cashing in on high secondary market valuations." The Western India Trustee of India Advantage Fund-I (part of ICICI Venture) will be offloading 20 lakh shares of PVR following its ongoing IPO that concludes on December 14, 2005. Its estimated profit: Rs 40-48 crore. Similarly, HPC Mauritius and Citicorp made huge profits from the sales of their stakes in HT Media and Suzlon Energy, respectively, following their IPOs. Private equity players also made killings on the sales of their stakes in UTV Software, Patni Computers and Indiabulls Financials, among others.

MAHESH NAYAK

The Heaven & Hell of Growing Businesses

10:15 a.m.

Second production line halted owing to shorn belting

12:20 p.m.

Second lot of imported dyes bleeding - entire lot rejected

3:35 p.m.

Yarn prices tumble - Ahmedabad client asks for price reduction

11:35 a.m.

Singapore distributor confirms huge order for Malaysian retail chain

2:40 p.m.

Bank allows additional LC limit against client order confirmation

5:20 p.m.

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Q&A

“We Are Language Indifferent”



SHOME BASU

AS THE CHAIRMAN OF THE euro 1.55-billion or Rs 8,525-crore (in sales) Independent News & Media Group, Sir Anthony O'Reilly runs a media empire that boasts 165 titles across the world. In Delhi recently to announce his foray into India, the former Heinz CEO and one of Ireland's richest businessmen, spoke to BT's Archana Shukla. Excerpts:

Why India, where media consumption is one of the lowest in the world?

The newspaper market here is one of the fastest growing in the world, whereas those in the West are stagnating. Apparently, the circulation fell in America and Europe (by 0.2 and 0.7 per cent, respectively) last year, whereas it grew in emerging markets like India (8 per cent). My belief is that as this market matures, media consumption will rise. The 40 per cent population that doesn't read any newspapers today, when initiated, will only bring new growth.

Why did you ally with Jagran Prakashan, a vernacular newspaper and not some English daily, which is your core competence?

We are language indifferent. All we look at is the future growth prospect of our ally. It was the simple statistics in case of Jagran that aroused my interest in the group. It reaches around 102 million households, whereas the total number of households in the US is 120 million. Then, in our interaction with the group, we found we had common ethos and goal.

What stake have you finally picked up in the company?

Around 20.8 per cent. We have invested Rs 150 crore in the group.

Any plans to look at the English, or the broadcast space?

The Hindi readership market in India is growing at 30 per cent. It is the fastest growing market in the world. English readership is not growing that fast. There are no plans for the broadcast business, but any collaboration, if it happens, will happen with the Jagran Group only.

TV and internet are gaining at the cost of print. What'll happen to print?

According to me, internet and TV will not be able to do any harm to newspapers in the longer run. New technology products will soon induce an element of fatigue in the minds of time-starved, information-laden consumers. They will seek out simple and easy information again and thus, turn back to newspapers. In the next two decades, newspapers will be at the top of the pyramid (in the media industry).

SATYAM'S LEADERSHIP FACTORY



A. PRABHAKAR RAO

Satyam's Cohen: Minting leaders

HOW IS AN IT COMPANY, GROWING AT 30 per cent year-on-year, to keep up with the demand for executive leadership? Why, set up a leadership institute of its own. That's what Satyam Computer Services has done, and it has roped in a hi-profile head for it: Edward S. Cohen, who founded consulting firm Booz Allen Hamilton's Centre for Performance Excellence in 1999. Says Cohen, 47: "Any organisation experiencing rapid growth is bound to face shortage of leaders. Therefore, it needs to put in place a leadership engine early on."

The school will operate out of a state-of-the-art facility near Hi-Tec City in Hyderabad, and has Harvard management professor Krishna Palepu as its strategic advisor. Satyam's Chairman B. Ramalinga Raju clarifies that it is not a new wisdom that has dawned on the company. "This is not a step function, but a continuum," he says. To start with, the institute aims to train 1,500 of Satyam's executives in what the company's HR chief A.S. Murthy calls "full life-cycle leadership model". "It's an attempt to build an institution that nurtures the best-in-class entrepreneurial leaders faster than competition," says Murthy. (Some competitors like Infosys already have their own leadership institutes.) Meanwhile, Cohen needn't worry about the relocation disrupting his family life. His wife, Priscilla Nelson, is to be the General Manager of 'Multicultural Diversity and Coaching Programmes' at Satyam.

E. KUMAR SHARMA

Day-dreaming On Dalal Street

A CLSA analyst considers what it would be like to merge Ranbaxy and Dr Reddy's Labs.



A. PRABHAKAR RAO



VIVAN MEHRA

Game? DRL's Executive Vice Chairman and CEO G.V. Prasad (left) and Ranbaxy's CEO & MD Brian Tempest

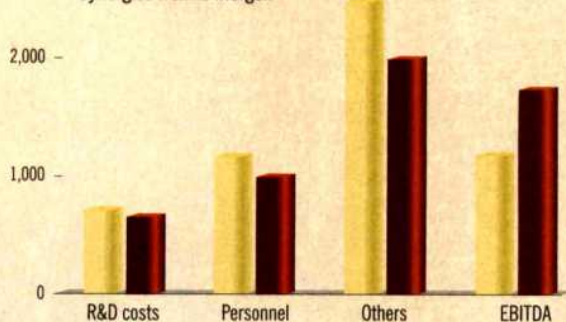
LET'S NOT TALK ABOUT INDUSTRY REACTION—THAT will be of outrage—but the idea: A merger of Ranbaxy Laboratories and Dr Reddy's Labs (DRL). Proponent of the idea: CLSA Research's Mumbai-based analyst, Ajay Sharma. His argument is compelling—from an economic perspective. Ranbaxy is India's largest pharma company with revenues of Rs 5,333 crore and DRL is the second largest, with a topline of Rs 1,629 crore. Both are the closest of rivals, have similar business models, and similar products and services. But both have been going through tough times, with their margins dipping and R&D costs galloping. Sharma's report says that if the two companies were to merge, there could be substantial savings in costs—like R&D, and sales and marketing expenditure—to the tune of \$120 million (Rs 540 crore), which in turn would boost their (combined) market cap by \$2.4 billion or Rs 10,800 crore (at a P-E multiple of 20) to \$7.1 billion (Rs 31,950 crore).

The report points out huge synergies in the US, a key market for both the companies, where they can bring in substantial savings if they join hands. For instance, both have overlaps in their pipeline of blockbusters like Pravastatin, Sertraline and Fexofenadine. Then there are several overlaps in DMF filings (approval for bulk drugs) and ANDAs (for generic drugs) too, which can result in significant savings, since it costs anywhere between \$150,000 and \$300,000 (Rs 67.5 lakh-Rs 1.35 crore) per ANDA filing. Ranbaxy has more than 100 filings while DRL has half of it.

Then there are competitive factors in the international generics market, where Israel's Teva is giving them a run for their money. The report further

An Analyst's Prescription

Synergies from a merger.



Figures are in Rs crore. Stand alone Merged Source: CLSA Asia-Pacific Markets
EBITDA: Earnings before interest, taxes, depreciation and amortisation

PINAKI PAUL

makes a case for the merger by comparing DRL and Ranbaxy with Sun Pharma and Cipla, which have a less riskier business model. For instance, in early 2004, the combined market cap of DRL and Ranbaxy was \$7 billion (Rs 31,500 crore) while Sun Pharma and Cipla's was \$3 billion (Rs 13,500 crore). Today, Ranbaxy and DRL's is down by 33 per cent to \$4.7 billion (Rs 21,150 crore) while Sun and Cipla's rose by 90 per cent to \$5.6 billion (Rs 25,200 crore). As separate entities, DRL and Ranbaxy have suffered huge costs and market risks. But the report concludes that a merger could solve most of these problems for the two companies and also create a stronger generic company. Of course, don't expect the Singhs of Ranbaxy and the Reddys of DRL to take the report too seriously. Or should you?

SAHAD P.V.

TOP OF MIND

Hutch's 3

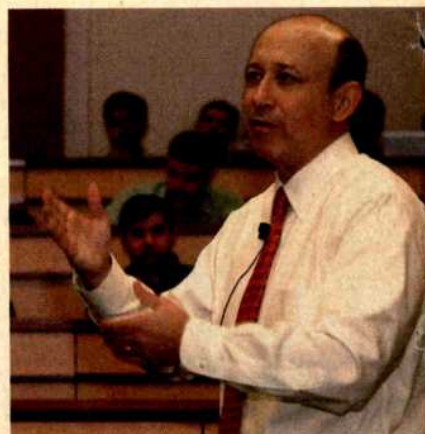
What: 3 is Hutchison Telecom's global brand for their third-generation (ergo, 3) mobile-phone networks that is present in markets across Western Europe, Australia and Hong Kong

What about it: This correspondent spotted a Yellow WagonR festooned with the '3' logo doing rounds of Mumbai's Prabhadevi area late one night. The logo was inside a triangle looking like the Superman logo. (Note to editor: No, I wasn't drunk.)



Is 3 Coming? The Telecom Authorities haven't set out the guidelines for 3G networks in India as yet, but with marketers such as Nokia making WCDMA (3G) available 3G-ready handsets like the N70, you know it's coming. A decision on spectrum allocation for 3G is expected by the first half of 2006 (Even though the 2100MHz bandwidth is the bone of contention for CDMA and GSM operators).

COMPILED BY KUSHAN MITRA



Goldman's Blankfein: Point to make

The Guy From 'Bric' Company

IT WAS HIS FIRM THAT FAMOUSLY put the world spotlight on the BRIC countries (Brazil, Russia, India and China) two years ago, but Lloyd C. Blankfein, President & COO of Wall Street giant Goldman Sachs, himself found time to visit India only last fortnight. In Hyderabad to announce a grant of \$1 million (Rs 4.5 crore) from the Goldman Sachs Foundation for the Centre for Analytical Studies at the Indian School of Business, Blankfein was too rushed for media interviews, except for a hurried press meet. Did all the traffic snarl-ups at Mumbai, Bangalore and Hyderabad dampen his enthusiasm for India? Hardly. "India has crossed the tipping point (in terms of its attractiveness as an investment destination) and is a fabulous place to invest," he told reporters. He isn't being polite. Goldman already runs a high-end back office in Bangalore and isn't ruling out the setting up of more outside the Garden City. "We are looking at opportunities and I will be surprised if we do not make an investment in India within a year from now," he said. Better still, he didn't think the Sensex's current levels were anything to worry about.

E. KUMAR SHARMA

Cigarettes Get The Stick

What: Ban on on-screen smoking, with effect from January 1, 2006

Why: Duh, because cigarettes kill—actually, some 800,000 of them every year in India. The more immediate reason, however, was a study by WHO on impact of on-screen smoking on audiences (*Bollywood: Victim or Ally* was the study's title)

Small Mercies: Historical and foreign movies, live news and events, and interviews are excluded from the ban. But movies produced before the ban will have to run warning captions

What Now: Last year, the government banned smoking in public places, tobacco advertising and sponsorship of events by tobacco companies. That means your loo at home is the only place where you can smoke—that is, if your spouse doesn't mind



COMPILED BY RITWIK MUKHERJEE

P-WATCH

A bird's eye view of what's hot and what's not on the government's policy radar.

THE FIRST HALF LOOKS ENCOURAGING

SCORECARD

This is what the economy looks like now:

POSITIVES

- GDP growth to be 7 per cent plus in 2005-06
- Improvement in states' financial positions
- Average inflation rate at less than 5.5 per cent
- Fiscal and revenue deficit targets to be met

NEGATIVES

- Coal, power sectors continue to be laggards
- Sustaining 8-10 per cent GDP growth difficult
- Agricultural growth rate may not hit 4 per cent

FINANCE MINISTER P. CHIDAMBARAM'S MID-YEAR SCORECARD FOR 2005-06 IS more good than bad. The good news first: India remains on the high growth trajectory, buoyed by the first-half GDP growth of 8.1 per cent. The expenditure and receipts trends shows that fiscal and revenue deficits as well as inflation will remain under control. But, as the Finance Minister himself said, "sustaining a growth rate of 8-10 per cent and an investment rate of 26.3 per cent of GDP (2003-04) will be difficult in the medium term". Also, the farm sector is unlikely to grow at more than 3 per cent. That means the overall growth rate will remain at 7 per cent levels.

ASHISH GUPTA

FOR A FEW BILLION DOLLARS MORE

THE RESERVE BANK OF INDIA (RBI) HAS RAISED THE INTEREST CAP ON NON-RESIDENT External Rupee deposits by 25 basis points to 75 bps above LIBOR, which is currently pegged at 4.83 per cent. This means domestic banks can offer NRIs 5.50 per cent on one-two year deposits, and 5.60 per cent on two-three year deposits. "NRIs are our main source of foreign currency," says K. Cherian Varghese, Chairman, Union Bank of India, adding: Till November 17, 2005, outstanding deposits in NRE account are \$21.3 billion (Rs 95,850 crore) in Indian banks, compared to \$20.56 billion (Rs 92,520 crore) during the whole of calendar year 2005. With the US Federal Reserve likely to hike its rate to 4.50 per cent, the NRI community can expect some more largesse from RBI.

ANAND ADHIKARI

STAMP OF DISCORD

THE MAHARASHTRA GOVERNMENT HAS ZEROED IN ON A GOLDEN GOOSE—STAMP duties. It wants HDFC Bank and ICICI Bank to pay stamp duties on the entire mortgage value of home loans advanced by them. "The agreements between borrowers and ICICI Bank are merely loan agreements and not documents relating to deposit of title deeds," says a bank official. Such agreements do not attract stamp duties. The Maharashtra government is considering a law to plug this loophole. It also wants bond houses, banks and other market participants to pay arrears in stamp duties on all direct securities deals done over the past 10 years. The bill: Rs 1,000 crore. Dealers are naturally crying foul. If other states also follow suit, housing loans and all bond market transactions will become more expensive. Observers expect the matter to reach the courts.

MAHESH NAYAK

VOLUNTARY DISCLOSURE

THE FINANCE MINISTRY WANTS individuals to voluntarily disclose high-value purchases when they file their income tax returns. The idea is to cull out individuals who use their unaccounted money for such purchases. Says Amarjeet Singh, Partner (Direct Tax), BSR & Co (KPMG's Indian avatar): "People are being made accountable for their spending. And such voluntary disclosures can help assesses avoid the taxman's notice."



Chidambaram: It's voluntary

CALLING RURAL INDIA

THE TELECOM REGULATORY Authority of India (TRAI) is fast tracking telecom penetration in rural India. A report, authored by Arvind Virmani, Part-Time Member, TRAI, recommends the scrapping of rural spectrum charges. It also wants a National Universal Rural Telecom Licence with a nominal entry fee of Rs 30 lakh. This is expected to lead to the emergence of specialised rural telecom suppliers, which will be subsidised for operating in "inaccessible areas". A decision will be taken on this issue soon.

KUMARKAUSHALAM

CURRENT

In a significant move, Bharat Forge's Baba Kalyani grabs a manufacturing foothold in China.

HEADLINER

Baba Kalyani

UMESH GOSWAMI



IF YOU CAN'T BEAT THEM, JOIN THEM. Realising that China could soon be a threat to India's auto-parts industry, Kalyani Group's Baba Kalyani has done the smart thing. He's struck a joint venture with China's FAW Corporation for its forgings business, which is already the biggest in China. Bharat Forge will have a 52 per cent majority stake in the JV, bought for an undisclosed sum, giving it access to big vehicle manufacturers in China like Toyota and Volkswagen. The JV has its manufacturing plant in Changchun in Northern China, with an annual forging capacity of more than 100,000 tonnes and a workforce of 1,700. "The JV is a step in the direction of reiterating our strong commitment to providing world-class forging technology to the fastest growing automotive market of the world—China," Kalyani said in a release. Financial details of the transaction haven't been revealed, but there's little doubt that Bharat Forge—already the second largest forgings manufacturer in the world—becomes an even more significant player in the industry.

KUSHAN MITRA

The Gas Issue Heats Up



NARENDRA BISHT

NTPC's C.P. Jain: Left in a lurch

POWER GIANT, NTPC, SEEMED SET TO drag Reliance Industries to court after the latter said it would revise the price and the delivery dates of gas to two NTPC power plants due for commissioning end of 2007. "NTPC is taking legal and other steps for enforcing the contract," Union Power Minister P.M. Sayeed told the Rajya Sabha. In July last year, NTPC had awarded a contract to RIL for supply of 13 million cubic metres of gas per day for the two power plants. Apparently, while RIL is willing to sell its own gas at the contracted \$2.94 (Rs 132.30) per million BTUs (British thermal units), it is unwilling to sell purchased gas at the same price, since gas prices are higher than the contract price.

BMW Sets Up Shop

IT'S A MODEST BEGINNING, BUT A significant move nonetheless. Luxury car major BMW has finally decided to set up a manufacturing plant in India at Tamil Nadu, besides a sales subsidiary. The total investment will be Euro 20 million (Rs 110 crore), and the plant will commence production by the beginning of 2007. To start with,

the plant will assemble BMW 3 Series and 5 Series sedans, painted bodies and parts for which will be shipped in from Europe. When fully operational, the plant will roll out a modest 1,700 cars a year. "The Indian automobile market offers significant growth potential in the long term. With our increased presence there, we will be well positioned

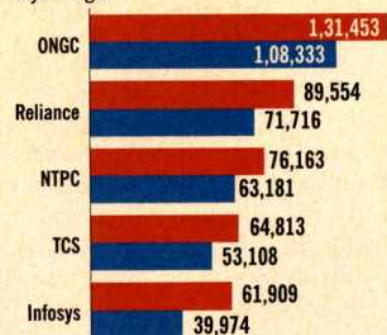


BMW's Panke: It's gear 1 in India

to fully tap this potential," BMW Chairman Helmut Panke said in statement. In 2004, BMW sold just 100 vehicles directly in the country. But with its own sales set-up in place, the German car maker can possibly sell hundreds more.

THE TOP FIVE: THEN & NOW

A look at where the top five stocks were a year ago.



■ Jan.-Dec. 2005 ■ Jan.-Dec. 2004 Figures are market cap in Rs crore
*Period under consideration is from January 1 to December 8
Source:CMIE

PINAKI PAUL



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NEWSMAKER

HEMENDRA KOTHARI

JAYANTA SAHA



Kothari: "India is where all the action is happening"

IS IT GOODBYE, DALAL STREET, FOR ONE OF INDIA'S BEST-known investment bankers? That's unclear at this point, but what's obvious is that Hemendra Kothari can safely pursue any ambition outside of the financial world. He has been a big name on Dalal Street for a long time, but now he also has the big bucks to turn, say, a full-time philanthropist, activist (he's big time into saving tigers), or angel investor. His deal with Merrill Lynch to sell his 50 per cent in the joint venture DSP Merrill Lynch has fetched him a massive and surprising \$500 million (Rs 2,250 crore). He'll continue to own a 10 per cent stake and remain Chairman of DSP Merrill Lynch (yes, the name doesn't change either). "When I started my business 30 years ago, my objective was to be a leading financial services (provider)," says Kothari. That seems to have certainly worked, with cross-border transactions being the order of the day. "India is where all the action is happening," he notes. As far as the firm goes, Merrill Lynch will make an open offer for the publicly traded shares of DSPML and also make an application for delisting of the shares. The transaction will also entail the continuing of DSPML Fund Managers, a wholly-owned asset management subsidiary of DSPML, as a JV where DSPML will own 40 per cent, while Kothari and related entities will hold the balance. But, what will DSPML look like over time? According to Kevin V. Watts, Chairman, Merrill Lynch International, the plan is to bring in more products and services in future. "We have a very strong bunch of people here and India, with its high growth rates, is a market that matters enormously to us. The next five to 10 years will be very important for us," he thinks. Knowing Merrill Lynch's ability to think and execute big, no one is doubting that.

KRISHNA GOPALAN

NUMBERS OF NOTE

500: The number of Indian companies operating in the UK, either on their own or in partnership with local companies. Nearly 400 of these companies are in the IT sector

238,883: The number of cases pending in various consumer courts, according to the National Consumer Disputes Redressal Commission

87: The number of companies with \$1 billion (Rs 4,500 crore)-plus market capitalisation, up from 76 in June 2005, when the Sensex touched the 7,000 mark

40 million: The number of people with AIDS worldwide, a figure similar to the size of Spain's population. The number of HIV/AIDS cases in India is 5.1 million, the highest in South Asia

\$258.3 million (Rs 1,162.35 crore): The amount Microsoft Corp. founder Bill Gates pledged in October for R&D to combat malaria, including new cash to test the world's first vaccine against the disease

\$400 billion (Rs 18,00,000 crore) and almost 5 million jobs: What the Bush administration says the Kyoto Protocol would cost the US economy. The protocol excludes China and India from mandatory emission caps

\$300 million (Rs 1,350 crore): The second-largest fine in a criminal antitrust case to be paid by Samsung Electronics Co. and its US subsidiary, Samsung Semiconductor Inc. for price-fixing

\$50 billion (Rs 2,25,000 crore): The liability that US-based Merck faces in about 7,000 state and federal lawsuits against its former blockbuster painkiller Vioxx

\$7.9 billion (Rs 35,550 crore): The size of China's beauty industry, which has doubled since 1998. Some 90 million urban women in China spend 10 per cent or more of their income on beauty products

\$30 billion (Rs 1,35,000 crore) each year by 2015: Indian demand for semiconductor chips, according to SemIndia, a consortium of overseas Indians that plans to set up a \$3-billion (Rs 13,500 crore) chip manufacturing factory in the country in which US chip-maker Advanced Micro Devices Inc. may pick up a stake





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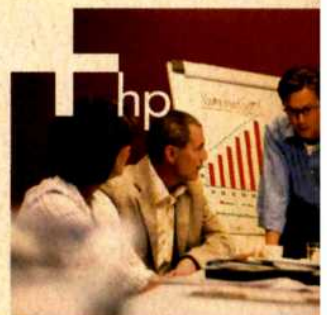
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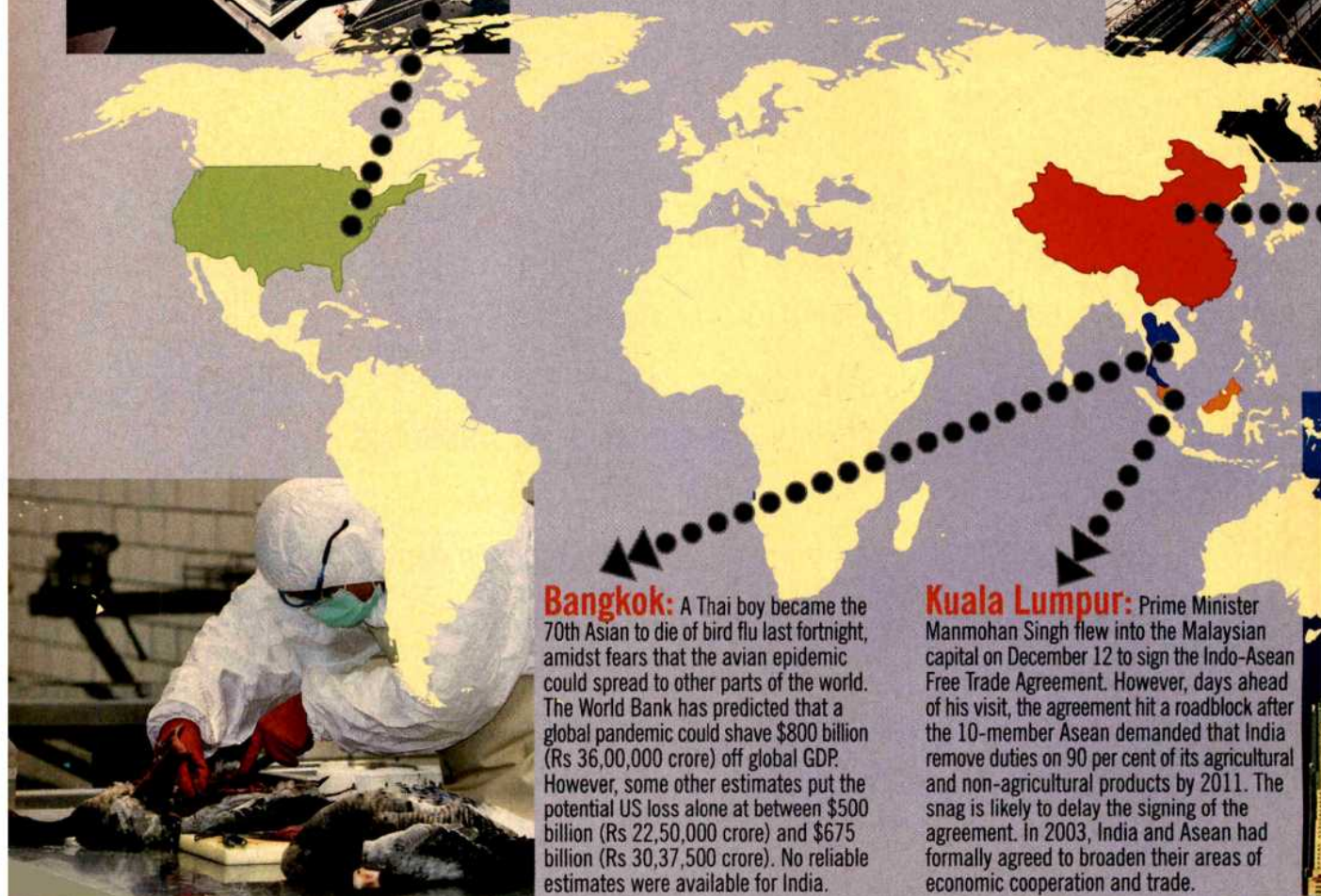
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Washington: The latest World Bank Global Economic Prospects report is bullish on India and China growth story. According to the Bank, India and China are expected to grow at 7 per cent and 9 per cent respectively in 2005, higher than the average 5.9 per cent estimated for developing countries. The Asian giants' rapid pace is despite an expected slow down in global gross domestic product growth to 3.2 per cent during 2005 from 3.4 per cent last year. India's robust growth is being attributed to an increase in consumption, investment, exports and industrial production.



Bangkok: A Thai boy became the 70th Asian to die of bird flu last fortnight, amidst fears that the avian epidemic could spread to other parts of the world. The World Bank has predicted that a global pandemic could shave \$800 billion (Rs 36,00,000 crore) off global GDP. However, some other estimates put the potential US loss alone at between \$500 billion (Rs 22,50,000 crore) and \$675 billion (Rs 30,37,500 crore). No reliable estimates were available for India.

Kuala Lumpur: Prime Minister Manmohan Singh flew into the Malaysian capital on December 12 to sign the Indo-Asean Free Trade Agreement. However, days ahead of his visit, the agreement hit a roadblock after the 10-member Asean demanded that India remove duties on 90 per cent of its agricultural and non-agricultural products by 2011. The snag is likely to delay the signing of the agreement. In 2003, India and Asean had formally agreed to broaden their areas of economic cooperation and trade.

Most Attractive FDI Destinations 2005

As evident below, India and China lead the pack.

Top 10: FDI Confidence Index



■ 2004 ■ 2005
Values calculated on a 0-3 scale

Top 10: Levels Of Investor Optimism



Expected Offshore Investments



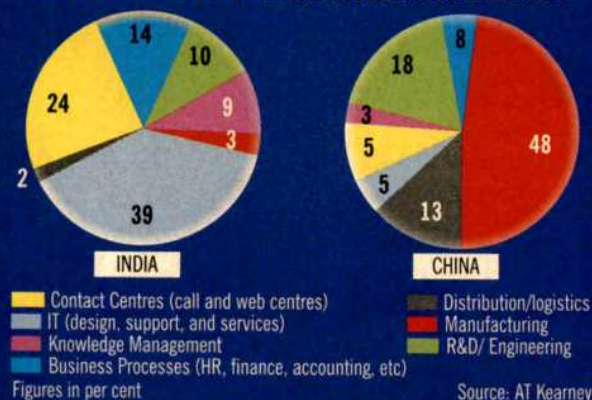
Figures in per cent



►► **Beijing:** Guess who's been helping feed China's insatiable appetite for steel? India. Last year, India exported 78.15 million tonnes of iron ore, of which China gobbled up 59.40 mt. The number has only increased over the previous three years. In 2002-03, India shipped out 48.02 mt of iron ore, and China bought 26.27 mt. The following year, however, China upped intake to 42.06 mt, against India's exports of 62.58 mt.



India And China As Offshore Investment Locations



Source: AT Kearney

“ VERBATIM ”

“I believe there are no external constraints to India's growth and whatever constraints are there, are internal”

Prime Minister **Manmohan Singh**, at the India Economic Summit 2005, in Business Standard

“The west tends to be snotty and so is the political reaction to outsourcing... this is free trade. We benefited from free trade, and now that China and India are competing, we are complaining!”

Sir **Martin Sorrell**, CEO, WPP, in Business Line

“The digital divide is no excuse for not having good education”

Intel Chairman **Craig Barrett**, in The Economic Times

“I want jet turbines all over the world to be made from the steel Jharkhand produces. I have already spoken to (Mittal Steel's Lakshmi Niwas) Mittal about this. This is my dream”

Jharkhand CM **Arjun Munda**, in Business Standard

“Technology can be local, to meet local needs. For example, a product can be local. But science is global. I think there is only one benchmark by which we should be judged and that is global”

Ragunath Anant Mashelkar, head, CSIR, in The Financial Express

“We are interested in the possibility of going to India, but it wouldn't be what we call classic Playboy”

Christie Hefner, Chief Executive, Playboy Enterprises Inc., to Reuters

“The difference between other businessmen and me is that I am more shameless than they are”

UB group Chairman **Vijay Mallya**, at IIM Ahmedabad conclave, to The Economic Times

“Agriculture is one of the 15 to 20 pieces of the puzzle”

Director-General of the World Trade Organization **Pascal Lamy**, on trade talks, to BBC online

“History, of course, tells us there is no country that has really made progress without engaging the US. Now, you must engage China also”

Finance Minister **P. Chidambaram**, in The Economic Times

Padding Up For The Brand

IT companies mull cricket sponsorship in a bid to get their brands to score.

ON THE FACE OF IT, AN EMOTIONAL bond with technology may sound bizarre, but that's what IT biggies in the country are aiming at; to connect with their end consumers in a way that probably seemed appropriate only for FMCG companies so far. Companies like Infosys, Wipro and Microsoft, reportedly, are in the race to pick up sponsorship deals for the Indian cricket team. Cricket is the most expensive property for any marketer today and what it delivers is a direct and unparalleled connect with the masses. These companies, on the contrary, operate business to business, and get more than three-fourths of their revenues from global markets. What explains their quest for brand recognition in a market and among a group that's not their core audience?

According to Deepak Khosla, Senior Vice President (Global



SHAIKESH RAVAL

Team India sponsor: Will it be Infosys?

Marketing), Patni Computer Systems, there are two main reasons for this move. One, the heating up of competition on the home turf, especially after the entry of the global biggies like Accenture

and IBM, who are now looking at consolidating their position. "These companies have a strong brand appeal and, thus, are in a better position to woo not only the prospective employers, but also the 400-500 IT customers," says Khosla. Secondly, he says, some of the top IT companies are emerging as pressure groups, even politically. "These companies need to work on their brand image to build a positive sentiment among masses," Khosla adds.

For a company like Microsoft, the reasons are different. Says Ranjiv Singh of Microsoft India: "For our PCs and all other services, the consumer segment is growing faster than the institutional segment. Thus, we need to tap all consumer touch points and, hence, cricket." In a country where cricket is religion, the men in blue make great brand ambassadors.

ARCHNA SHUKLA

A MEDIA BARON'S UNLIKELY BUSINESS MODEL

THIS YEAR, BENNETT, COLEMAN & CO, which publishes newspapers such as *The Times of India* and *The Economic Times*, signed more than three-dozen, equity-for-advertisement deals with small and medium-sized companies. The barter deals involve consistent promotion of the said companies across all BCCL media platforms, which include newspapers (Hindi and English), radio (Radio Mirchi), internet portal (Indiatimes), and soon-to-be-launched news channel, Times Now. "Times media platforms are far too expensive for small and medium companies" that, however, need "good publicity" to match their growth, says a top source in BCCL. The deals have scandalised the media circles but, for now, BCCL doesn't seem to care.

NARENDRA BISHT



BCCL's Samir Jain

JAIN'S EQUITY-FOR-AD DEALS

COMPANY	STAKE	VALUE
Videocon	N.A.	Rs 100 cr
Pantaloon	4.53%	Rs 72 cr
Action Construction Co	3.2%	N.A.
Celebrity Fashions	12%	Rs 21 cr
Hakoba Lifestyle	15%	Rs 10.6 cr
Kinetic Motor	8.5%	Rs 10 cr
Career Forum	9%	Rs 9 cr
Media Video	14.93%	Rs 7 cr
SQL Star	9.8%	Rs 7 cr
Today's Writing Products	6.6%	Rs 7 cr
SR Foils	16%	Rs 4 cr
RS Hygiene	16%	Rs 5 cr
Paramount Airways	2%	N.A.
Provogue	4%	N.A.
Rajesh Exports	5.27%	N.A.
Vishal Retail	12%	N.A.

Source: Published reports and industry sources
The deals are listed in order of their value; N.A.: Not Available

ARCHNA SHUKLA



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Edinburgh



Delhi

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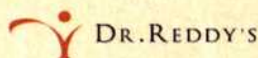
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DEALTRACKER

NOVEMBER'S TOP DEAL



The pharma major snaps up a Roche unit

BUSINESS TODAY-ERNST & YOUNG

Deal Watch

Beginning July, *Business Today* began publishing a monthly listing of India Inc's biggest deals. Our partner: Global professional services firm Ernst & Young. Here are the deals that were struck in November.

Deal Particulars: Dr Reddy's Labs, the Hyderabad-based pharma major, struck a deal to acquire Roche's API (bulk drugs) business in Cuernavaca, Mexico, for (Rs 268.86 crore). The unit makes and sells APIs to Roche and other big pharma companies. The acquisition includes its FDA-approved manufacturing plant, 340 employees, existing customers and a portfolio of 18 products.

Impact Analysis: API is one of the core businesses of Dr Reddy's and accounted for 36 per cent of the total sales in FY 2004-05. Besides adding to its API capacity, the deal boosts the company's custom pharmaceutical services (CPS) business, which aspires to be a partner of choice for all strategic sourcing needs of innovator companies worldwide. The acquisition will also help Dr Reddy's offer services across the entire value chain of pharma services.

TARGET	ACQUIRER	INDUSTRY	TYPE	DEAL VALUE (Rs crore)	STAKE
Roche's API Business	Dr Reddy's Laboratories	Pharmaceuticals	Acquisition	268.86	100%
REPOSO SAIC, Argentina	United Phosphorus	Chemicals	Acquisition	50.13	100%
Indiabulls Financial Services	Capital International	Financial Services	Investment	138	5.20%
Plouton Resources Pty	Gujarat NRE Coke	Metals	Investment	Undisclosed	49%
Avecia Pharmaceuticals, UK	Nicholas Piramal	Pharmaceuticals	Acquisition	76.50	100%
Pennar Profiles	Alumeco AS, Denmark	Metals	Investment	10.80	60%
PT Bank IndoMonex	State Bank of India	Banking	Investment	Undisclosed	76%
Comicrom, Chile	Tata Consultancy Services	ITES	Acquisition	104.81	100%
Trinity Partners	WNS Global Services	ITES	Acquisition	Undisclosed	100%
Sify	Infinity Capital Ventures LP	Software	Investment	282.53	31.60%
Wanbury	Doctors Organic Chemicals	Pharmaceuticals	Investment	37	51%
Nihon Pharmaceutical Industry Co, Japan	Ranbaxy Laboratories	Pharmaceuticals	Investment	Undisclosed	40%
Axes Technologies, USA	Mahindra British Telecom	Telecom	Acquisition	246.08	100%
ControlNet India	Persistent Systems	ITES	Acquisition	9	100%
UCC, Dubai	Pidilite Industries	Construction Chemicals	Acquisition	Undisclosed	100%
Home Solutions Retail India	Unitech	Retail	Investment	25	33%
Persistent Systems	Norwest Capital Partners	Computer Software	Investment	91.14	25%
IIHT	Bennett, Coleman & Co	Computer Hardware and Training	Investment	12.50	9.90%
Brunner Mond Group, UK	Tata Chemicals	Chemicals	Investment	Undisclosed	Majority
PicoPeta Simputers	Geodesic Information Systems	Computer Hardware	Acquisition	Undisclosed	100%
SDG Software Technologies	3i Infotech	Computer Hardware	Acquisition	Undisclosed	100%
Indiatimes.com	WestBridge Capital Partners	ITES	Investment	31.90	2.90%
Paramount Airways	Kotak Private Equity Fund	Airlines	Investment	68.36	10%

Deal Watch includes only M&As, private equity and brand sale transactions

Ernst & Young is a leading M&A advisor in India. While every care has been taken to compile this data, it is based on media reports, company announcements and other secondary research. Any decision on the basis of the above mentioned information should be taken only after professional advice. Business Today or Ernst & Young do not undertake any responsibility in regard to any such decision.

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ANNOUNCED:

By Intel, the world's largest maker of computer chips, plans of investing more than \$1 billion

(Rs 4,500 crore) in India. Of this, \$800 million (Rs 3,600 crore) will go into business expansion, mostly research, over five years, and another \$250 million (Rs 1,125 crore) will be spent on setting up a venture capital (VC) fund. Intel has invested \$700 million (Rs 3,150 crore) in the past 10 years on setting up a base here and employs 3,000 people. Besides, it has invested \$100 million (Rs 450 crore) in VC funding in around 40 companies, including NIIT, Sasken, FutureSoft, Nipuna and Tejas.

FILED: Lawsuits, in the Delhi High Court, by Suzuki Motor Corporation against 10 companies in various businesses like finance, textiles, spinning and weaving, for using the Suzuki brand without permission.

MOVING UP: India in the global M&A ranking, to 17th slot from 29th, according to Deloitte Touche Tohmatsu. Between January and November this year, 1,013 M&A deals were struck in the country. The value of the deals is



put at \$18.2 billion (Rs 81,900 crore) in the first 11 months, against \$6.1 billion (Rs 27,450 crore) during the corresponding period last year.

REDESIGNED: Indian Airlines' brand name and logo. IA has dropped the word Airlines from its name. Now, the name 'Indian' would appear on both sides of the tail of all IA aircraft in English and Devnagiri script. A graphic depiction of a partly-visible blue "wheel" inspired by the Sun Temple at Konark on the Orange tail is meant to symbolise timeless motion and trust that has stood the test of time. The latest move



comes at a time when the state-owned carrier is preparing to receive 43 brand new Airbus aircraft besides leasing A319s, which will fly between Indian cities for the first time.

LOWERED: The interest rate for Employment Provident Fund, to 8.5 per cent for 2005-06. This is 100 basis points lower than the 9.5 per cent demanded by trade unions, but 50 basis points higher than the 8 per cent recommended by the Central Board of Trustees' Finance and Investment Committee.

TV TODAY IN THE US

TV TODAY, PART OF THE INDIA TODAY GROUP that also publishes *Business Today*, launched its two 24-hour news channels—Aaj Tak and Headlines Today—in the US on December 1. The group has tied up with Echostar DISH Network, which caters to around 250,000 South Asian homes. "Aaj Tak and Headlines Today have been able to successfully widen the viewership base for news in India," says Aroon Purie, Chairman & Managing Director of TV Today. "This step will further widen the base for Indian news internationally." Both Aaj Tak and Headlines Today will be pay channels in the US, unlike India where these are free-to-air. "We expect the new venture to deliver 5 per cent to our current topline," says G. Krishnan, CEO, TV Today. Its next stop: the UK and Canada.



TV Today on Nasdaq Tower

ARCHNA SHUKLA

NGEF: REVIVING A DEAD HORSE



DEEPAK G. PAWAR

NGEF: Prime property

OLD MADRAS ROAD ON BANGALORE'S eastern periphery is among the most sought-after real estate locations in India's Silicon City. It's no wonder then that a defunct state-owned unit occupying 143 acres in this area is attracting spectacular bids for its property. Melmont Constructions, a joint venture between Purvankara Projects and Sobha Developers, bid Rs 1,327 crore for New Government Electric Factory (NGEF), and was topped by a consortium comprising Prestige Constructions-HDFC-Reliance that bid (in five separate parcels) Rs 1,600 crore. Developer interest in NGEF is in stark contrast to its current state. It has been ordered closure by the Karnataka High Court and all but 200 of its 2,000 employees have opted for VRS. Yet, the state government wants to revive NGEF after its Rs 68 crore debt is paid off. "We are looking at several options on how to (revive NGEF), including moving the company outside Bangalore," says Karnataka's industry minister, P.G.R. Sindhia. Bad idea. Companies like ABB, Schneider and BHEL compete in the space. Here's a better idea for the state government: Sell NGEF and invest the money in Bangalore's infrastructure.

RAHUL SACHITANAND

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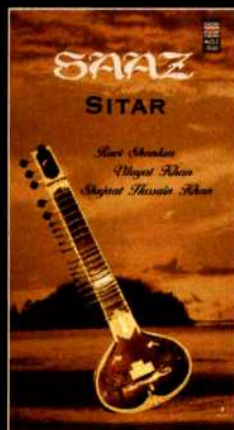
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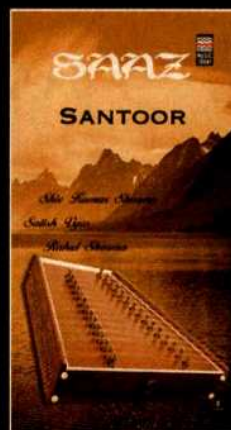
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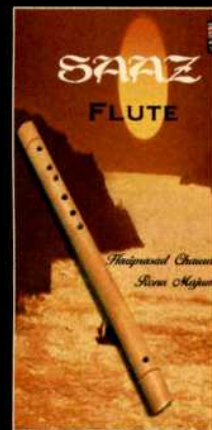
Artistes: Ravi Shankar,
Vilayat Khan
Shujat Hussain Khan
Code No CD A05109 A/B
MRP 2 CD Pack Rs. 395/-
2 cassette Pack Rs. 99/-



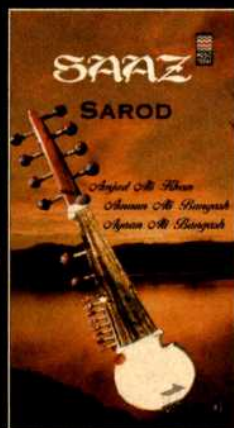
Artistes: Alla Rakha,
Kishan Maharaj, Zakir Hussain
Fazal Qureshi, Sarwar Sabri
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Artistes: Shiv Kumar Sharma,
Satish Vyas
Rahul Sharma
Code No CDA 05111 A/B
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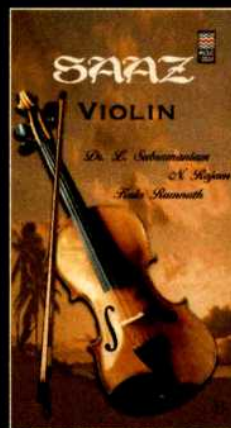
Artistes: Hariprasad Chaurasia,
Ronu Majumdar
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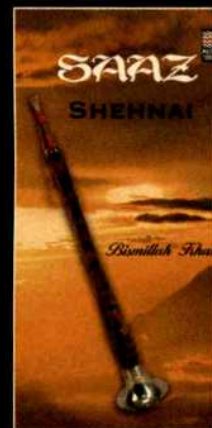
Artistes: Amjad Ali Khan,
Aayan Ali Bangash
Aayan Ali Bangash
Code No CD A05112 A/B
MRP 2 CD Pack Rs. 395/-
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Artistes: Sabri Khan,
Ram Narayan
Sultan Khan
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7	CD D 05115 A/B			
8	CD A 05116 A/B			
	Total			



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THE BT 50 INDEX

The markets are on a roll.

BT 50 **341.63**

241.83

Dec. 9, 2004 Dec. 12, 2005

BT Auto **772.35**

464.46

Dec. 9, 2004 Dec. 12, 2005

BT BFI **558.11**

406.79

Dec. 9, 2004 Dec. 12, 2005

BT Pharma **267.42**

228.27

Dec. 9, 2004 Dec. 12, 2005

BT Telecom **380.49**

218.74

Dec. 9, 2004 Dec. 12, 2005

BT FMCG **319**

182.24

Dec. 9, 2004 Dec. 12, 2005

BT Tech **226.34**

157.75

Dec. 9, 2004 Dec. 12, 2005

Long-term Growth Prospects

Even into the middle of the next decade, countries in East Asia and the Pacific are expected to deliver high per capita real GDP growth. What has helped them? According to the World Bank (WB), their strong growth "owes much to the economic reforms undertaken over the past several years". The bank also notes that "Improved macroeconomic policies, reflected in lower inflation, trade liberalisation (average tariffs have fallen from 30 to less than 10 per cent since the 1980s), more flexible exchange rate regimes and lower fiscal deficits have reduced uncertainty and improved the overall investment environment".

PER CAPITA REAL GDP GROWTH	1980s	1990s	01-06	06-15
World	1.3	1.2	1.5	2.1
High Income Countries	2.5	1.8	1.6	2.4
High Income OECD	2.5	1.8	1.6	2.4
United States	2.3	2	1.8	2.5
Japan	3.4	1.1	1.1	1.9
High Income Non-OECD	3.5	4.1	2	3.5
Developing Countries	0.7	1.5	3.7	3.5
East Asia & Pacific	5.8	6.3	6.4	5.3
Europe & Central Asia	0.9	-1.8	5	3.5
Latin America & Caribbean	-0.9	1.6	1.2	2.4
Middle East & North Africa	-1.1	1.1	2.5	2.6
South Asia	3.3	3.2	4.5	4.2
Sub-Saharan Africa Total	-1.2	-0.5	1.8	1.6

Figures in per cent

Oil Shock

How 2 million less barrels of oil per day would affect the world economy.

PRICE OF OIL (\$)	2006	2007	2008	2009
Level	90	70.1	44.2	40
Change From Base Line	34	28	3	0

CHANGE IN GDP (CHANGE IN LEVELS, % OF GDP)

World	-1	-1.5	-1.1	0.2
High Income Countries	-0.7	-1.3	-1.3	-0.3
Middle Income	-1.7	-1.6	-0.2	1.4
Large Low Income	-1.7	-2.8	-1.8	0.7

INFLATION RATE (CHANGE IN RATES, PERCENTAGE POINTS)

World	2.6	0.6	-1	-0.2
High Income Countries	1.4	0.1	-1	-0.4
Middle Income	5.8	2.0	-0.9	0.5
Large Low Income	2.8	0.9	-0.7	-0.2

REAL INTEREST RATES (CHANGE IN LEVELS, PERCENTAGE POINTS)

World	1	0.2	-0.1	0.1
High Income Countries	1	0.1	-0.2	0
Middle Income	1.1	0.7	0.2	0.2
Large Low Income	0.5	0.1	0.1	0.4

IMPACT ON CURRENT ACCOUNT BALANCE (% OF GDP)

World	-1.1	-0.5	-0.1	-0.1
High Income Countries	-1.1	-0.7	-0.2	-0.2
Middle Income	-0.9	-0.2	-0.5	-0.3
Large Low Income	-2	-0.2	1.8	1

Source: World Bank

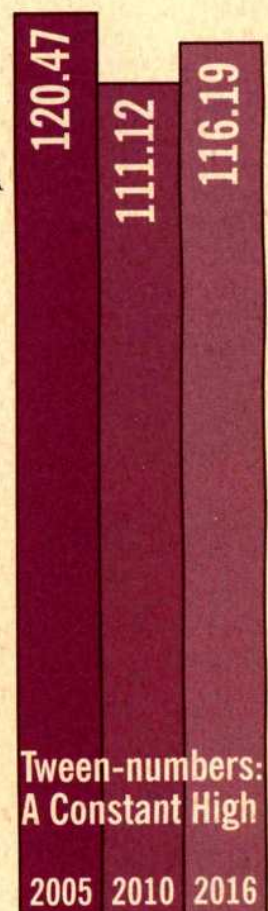
Tween Power

The brand-aware child is the father of the brand-conscious man. Not surprisingly then, everyone wants a piece of the Rs 20,000-crore tween (children aged between eight and 12) market.

PRIYA SRINIVASAN WITH E. KUMAR SHARMA & ARCHNA SHUKLA

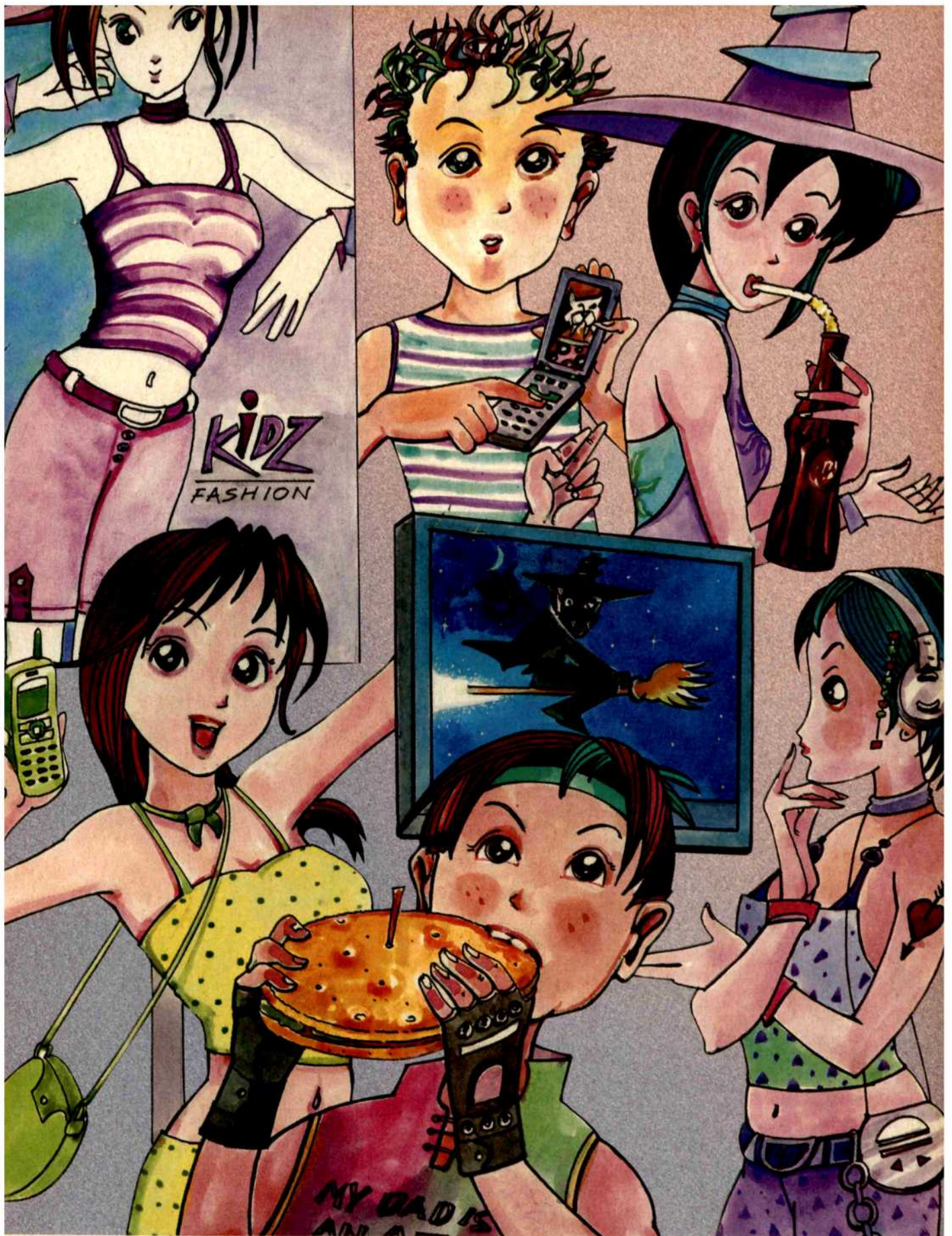
THE OLDEST WERE BORN IN AN INDIA THAT WAS RAPIDLY SHRUGGING OFF THE last vestiges of a socialist past and which already boasted a handful of satellite channels. The youngest are unaware of a past without mobile phones or the internet (they have always been around). By some estimates there are 120.47 million of the species right now, a number that will remain constant—it will go up marginally some years, and come down incrementally, some others—over the next 10 years (by 2016, there will be 116.19 million), a demographic feat that is already the envy of most other countries that are more grey than green. These are the tweens (short for in-betweens), children between the ages of eight and 12 that straddle the middle between infants, toddlers, pre-schoolers and early-schoolers who are almost entirely dependent on their parents and teenagers who would like to believe that they are not dependent on anyone. Over the past few years, that's a segment that has grown into a direct market of some Rs 20,000 crore, a market for everything from gaming consoles to books, apparel to cricket lessons, and burgers to beyblades.

That last, beyblades would seem to be an obsession. Fast spinning tops that are activated by pulling hard on an attached ripcord, beyblades are the weapon of choice for anime hero Tyson in Cartoon Network's popular show *Toonami*, and close to a million have been sold in India since their launch in May. In many ways, beyblades are the perfect example of the marketing-to-tweens phenomenon. The market for beyblades was created, and is being grown and sustained by television. The very definition of the segment itself was also a creation of advertising. As P.N. Vasanti, Director, Centre For Media Studies, points out, "The children's segment was the least tracked consumer category in the country and it was only after the arrival of television channels such as Cartoon Network that we started getting some quantitative and



Figures in million
Source: CMIE data extrapolating 1991 census reconfigured by BT to arrive at population in the required age group (8-12)

KULDEEP



ILLUSTRATIONS BY RAMEN SARKAR

qualitative data on it." In hindsight, that seems logical: channels needed to study the segment closely to sell themselves to advertisers. Thus, tweens and the tween-market may have existed for a long time, but it was television that taught marketers to look at them as a segment.

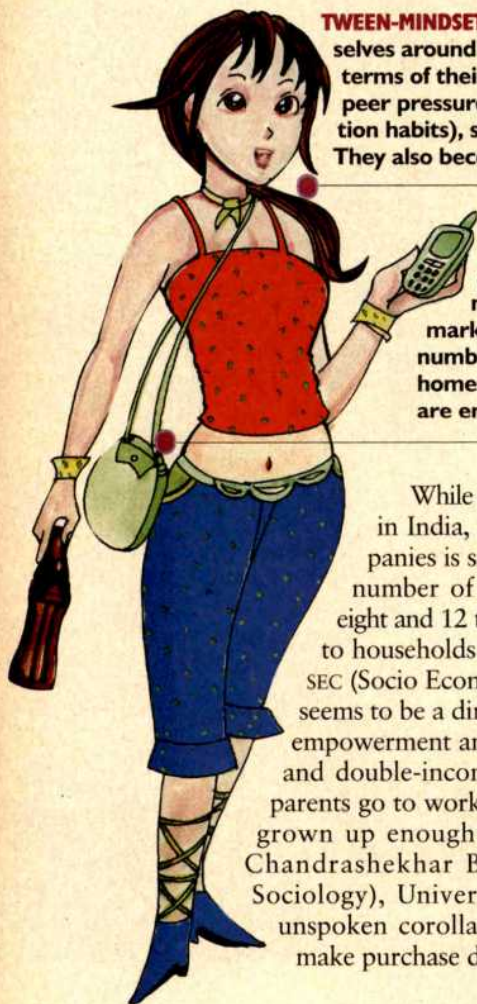
Having done that, marketers have discovered several facets to tweens that makes them ideal targets for marketing exercises. "Tweens have more buying power than any other demographic under 21," says Vikram Nair, Assistant Vice President (Children's Department), Lifestyle, a retail chain. "(Children in) the 8-12 age group are seen as tomorrow's consumers and (the segment) is important to companies from the point of view of entry and brand awareness," adds R. Suresh, Deputy Managing Director, TNS India. Then, there's the thing about pester-power, tweens driving purchase decisions even in categories such as TVs and cars. "This is particularly relevant to a country such as India where parents may not have been exposed to things as much as their kids," says Zarina Mehta, Head (Programming), Hungama TV, a channel largely targeted at tweens.

In some ways, eight is the age when most children begin to define themselves, in terms of their parents, friends, school, activities, hobbies and the like. Marketers are hoping that by targeting tweens, they can get them to define themselves in terms of brands too.

TWEEN-MINDSETS: Children start defining themselves around the age of eight. They do this in terms of their parents, friends (gang, and peer pressure plays a part in their consumption habits), school, activities, and the like. They also become aware of brands at this age

TWEEN-NUMBERS: The 45 million tweens in urban centres are the primary target for most marketers addressing the tween market. A substantial chunk of this number comes from double-income homes, and children from such homes are empowered early

While there may be 120 million tweens in India, the relevant audience for companies is smaller, 45 million, which is the number of children between the ages of eight and 12 that live in large cities and belong to households from the higher reaches of the SEC (Socio Economic Classification). And there seems to be a direct correlation between tween-empowerment and nuclear families on one axis, and double-incomes on another. "Where both parents go to work the premise is that the child is grown up enough to manage alone," explains Chandrashekhar Bhat, Head (Department of Sociology), University of Hyderabad. And, the unspoken corollary goes, grown up enough to make purchase decisions and spend money.



The Other Tween

WHY ARE COMPANIES THAT TARGET tweens as urban centric in their efforts as they are? And why do they stop with the higher reaches of the Socio Economic Classification (SEC)? One reason (for the second), says Sundar Raman, General Manager, MindShare India, is because "advertising to SEC A, B and C is aspirational for the others as well". As for targeting tweens in the great Indian hinterland, there is a rash of impediments, ranging from distribution (rather, the lack of it) to poor infrastructure. For instance, children in urban areas use the PC at home or in the neighbourhood cybercafé to play games online, but "even semi-urban India is lost to the gaming potential", laments Alok Kejriwal, CEO, Contests2win. Indeed, it is likely enough that at least some of the 75 million tweens that live outside cities or come from households in the lower reaches of the SEC in cities, are already at work, earning a livelihood.

Siren Song

CHILDREN, TWEENS OR NOT, HAVE always been a constant in advertising. If there is a change now, it is in the fact that the advertising for a product category targeted at tweens speaks to them directly, rather than speaking to their mothers. "Now, it is 'kid convinces, mother buys'," says Shalini Rawla, who runs The Key, a market research firm. And if there is a change now, it is in the fact that advertisers have realised that tweens like the tangible and intangible benefits being promised in ads targeting them to span both physical and intellectual dimensions rather than focus exclusively on one. Clearly, the contrarian pride in being a nerd or a jock comes later on in life, not between the ages of eight and 12.



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THE MAJOR CONTRIBUTORS TO THE TWEEN ECONOMY



GAMES

Rs 150 crore

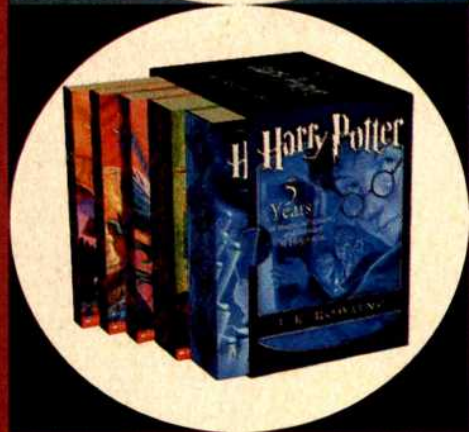


CDs/ DVDs
Rs 60 crore

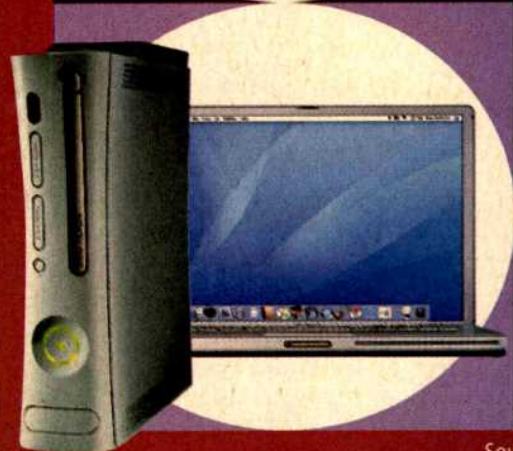
BOOKS/COMICS
Rs 80 crore



FOOD & EATING OUT
Rs 2,50 crore



APPAREL
Rs 7,00 crore



GIZMOS
Rs 4,600 crore



Source: Companies, industry estimates and Samsika Marketing Consultants



**MEDIA/
ENTERTAINMENT**
**Rs 150
crore**



FMCGs
**Rs 940
crore**

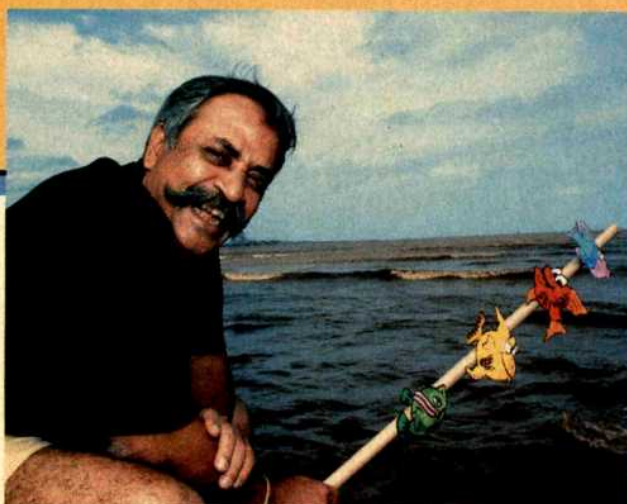
The Tween Economy

There are things that tweens buy. Then, there are things their parents do, where they influence the decision. That could explain why everyone from paint companies to car makers is targeting them.

PRIYA SRINIVASAN WITH RAHUL SACHITANAND
AND ARCHNA SHUKLA

WHY WOULD A PAINT COMPANY FEATURE TWO TWEENS wreaking havoc on their father's blueprints in its ads? And why would a car firm do one demanding to know whose big car her father is driving (he apparently can't afford one) in another? At one time, the answer may have had to do with advertising logic that dictated that no ad with a good-looking child could ever bomb. Not today. The two ads merely reflect a growing trend: of tweens influencing purchase decisions in product categories not relevant to them; and of companies responding to this by targeting the tweens. "The tween today has an opinion on life and the colour of her room," says Piyush Pandey, Executive Chairman and Creative Head, O&M India (that's right, the agency made the paint ad). "Tweens are the biggest influencers of what to eat or which mall to visit and it's the same across the top 50 cities in India."

The direct market for products targeted at tweens is an impressive Rs 20,000 crore, and growing at around 30 per cent a year. Much of this amount comes from the usual suspects: fast moving consumer goods (FMCGs), food and beverages, and apparel. "Kids are an important segment for us," says Amit Burman, CEO, Dabur Foods, offering the statistic that children account for 50 per cent of the sales of the company's Real fruit juices. "The brand communication has to be two-pronged: it should convince the mother about the health benefits of the product and it should have a fun element to woo kids." Then there's the product itself.



PIYUSH PANDEY/ Executive Chairman/ O&M India

"Tweens are the biggest influencers of what to eat or which mall to visit and it's the same across the top 50 cities in India"

Medium Messages

Children, especially tweens, are the largest consumers of media and entertainment products.

THAT'S A FACT STAGGERING ENOUGH TO BEAR REPETITION: kids are the biggest consumers of media and entertainment products. Consider the numbers: While adults spend just around two hours a day watching television, kids are glued to the tube for over four hours a day. And according to media analysts, they are much more involved viewers than adults. "Ad recall among kids is much higher than adults, simply because they are quite active viewers as against adults who are largely becoming passive TV consumers," says Sandip Tarkas, CEO, Media Direction. That's a fact: most children don't just remember ads, they even do the jingles that go with them. Not all the four hours is spent watching the kiddie-channels. Children actually spend more time watching Hindi movies and Hindi mass entertainment channels (the kind that feature game shows and weepies) than they do cartoons or other such programming targeted exclusively at them. And some of them actually watch news channels. However, the media habits of tweens have more to them than just TV. Older tweens read newspapers and general interest magazines; most tweens from higher income households surf the net; and a significant proportion frequents multiplexes with their parents, sometimes friends. All that adds up to a very media-savvy consumer in the making.

The physical shape (or characteristic) of the product is particularly important in the case of foods and FMCGs. That's one reason why companies obsess over the colour of toothpaste, magic pops that crackle when popped into the mouth, or the fruity smell of shampoos.

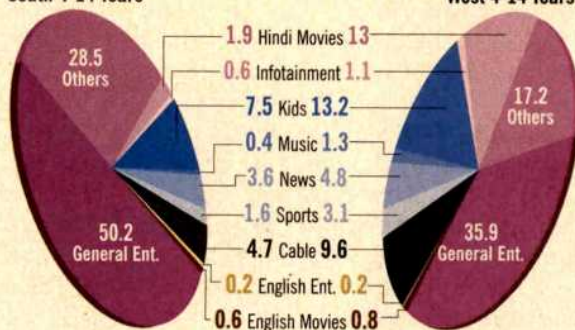
Far removed from FMCGs, Riaz Patca, Director, Ruf Apparel, also obsesses over physicality. Much of his company's designs are influenced by Bollywood movies (all the rage among tweens he says), and he reinforces this sure-fire strategy with tips from his 11-year-old son on what kids his age would like to wear.

In some ways, however, categories such as these have been supplanted by hi-tech products. Today, a tween is likely to be far more excited by a gaming console than a new kid-friendly toothpaste. "This is the technology generation," says Mohit Anand, Country Manager (Entertainment and Devices Division), Microsoft India. "Even children five-six years older than current tweens have not had the exposure they

Viewership By Genre

South 4-14 Years

West 4-14 Years

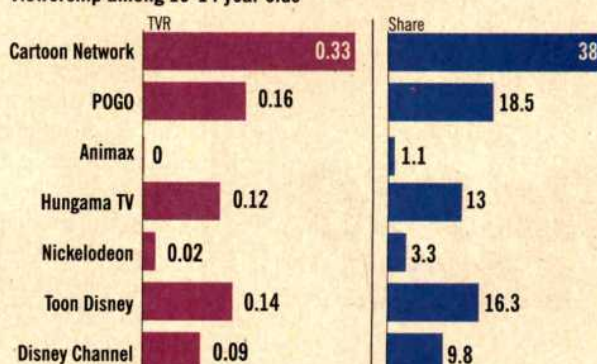


Period: Latest 13 weeks

Source: TAM Peoplemeter System

Viewership By Channel

Viewership among 10-14 year olds



TVR: Television viewership rating

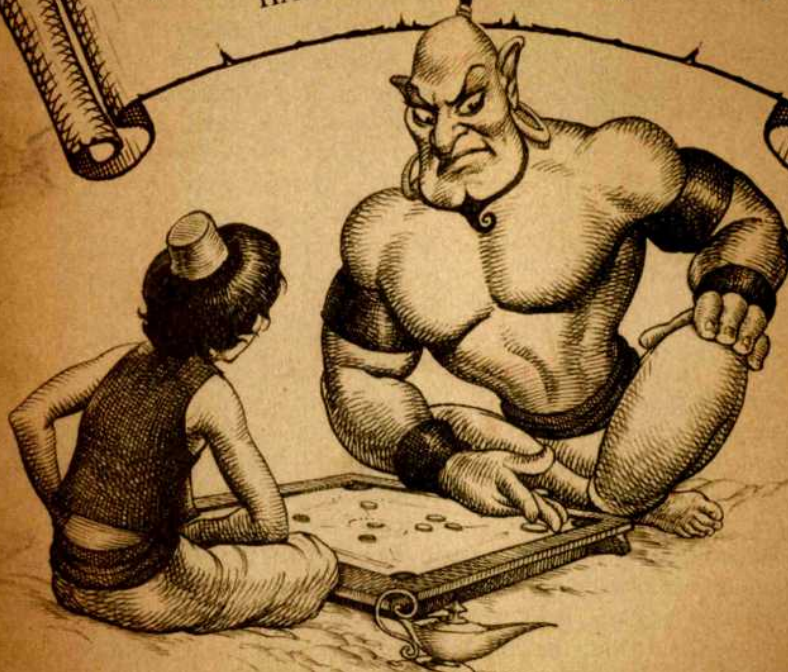
Market: All India

Period: Oct. 16, 2005-Nov. 11, 2005

Source: TAM Peoplemeter System

WHAT USE WOULD THE GENIE BE TO ALADDIN, IF SUCH SCHEMES FOR CREATING WEALTH HAD EXISTED EARLIER.

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All returns are for dividend option.

Returns assumed reinvestment of the tax free dividend declared.

Returns for 1 year: Absolute; Returns > 1 year: CAGR

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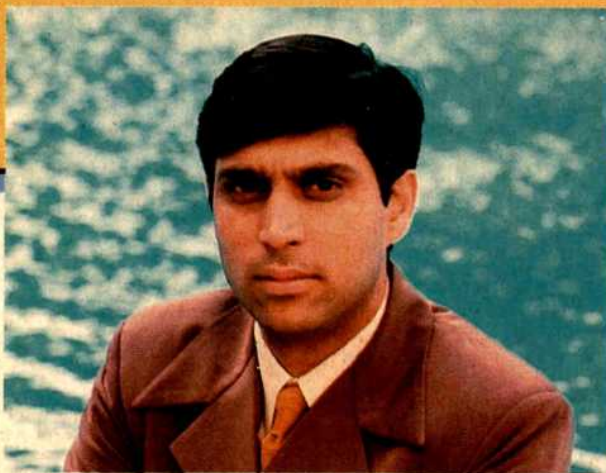
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MOHIT ANAND/ Country Manager (Entertainment)/ Microsoft

"This is the technology generation. Even children five-six years older than current tweens have not had the exposure they do"

do." That could explain why the company's Windows XP business unit has chosen to sponsor the 'Start Your Story' contest on Disney channel or run a promotional campaign at Delhi multiplex PVR for the company's PC games, *Age of Empires 3* and *Fable: The Lost Chapters* to coincide with the release of *Harry Potter & The Goblet of Fire*.

In such categories, tweens may play a far larger role in the purchase decision simply because their parents do not know as much as they do. "Children tend to have a bigger say since they are better exposed to the capabilities of a computer," says P. Krishnakumar, Country Manager (Consumer Desktops), Hewlett-Packard. "Besides, there is immense peer pressure on the (brand and configuration) of the computer owned." That involvement extends into the consumer durable space, with tweens offering their suggestions on the brand of TV or home theatre, or personal digital music player to buy. One reason for that is increasing technological complexity (an 11-year-old tween, for instance, may know more about digital cameras than her 37-year-old father) even in these products. Another is just that tweens (like most other consumer segments) feel the need to be with it. "Tweens are exerting increasing influence in the purchase of products across all categories," says Ravinder Zutshi, Deputy Managing Director, Samsung India Electronics, "and especially so when there is something new and cutting-edge released in the market."

Despite the trend of tweens being obsessed with anything to do with consumer technology (think a gaming console or the new iPod Video), there are some categories that have traditionally done very well by targeting tweens (apart from other segments) and which continue to hold their own in some cases, or just cling on in others. Books is one such. Few tweens read; however, book publishers (and distributors) have continued to feed off those who do. "Children from families where the parents read still buy books," says Anthony Joseph, COO, India Book Distributors, adding that if tweens are not into books, it probably has more to do with "lack of products and lack of marketing" than the kind of backgrounds they come from. Amusement parks, another such. Some tweens still like to visit amusement parks, although, in India, the business is driven largely by tweens from smaller cities, or school trips. And toys and board games, still another. Just when it looked like traditional (think: mechanical) toys would be overwhelmed by the digital revolution (think: gaming consoles, PC games, and the like) came the beyblade revolution. "Beyblades have kicked off a massive interest in the organised toy market," gushes Daniel Selvaraj, Marketing Manager, Funschool, a company that has an alliance with Cartoon Network to sell beyblades in India. Then, that's a product category that is backed by all the power of a blockbuster TV series.

ADDITIONAL REPORTING BY RITWIK MUKHERJEE AND NITYA VARADARAJAN

RAVINDER ZUTSHI/ Deputy MD/ Samsung India

"Tweens are exerting increasing influence in the purchase of products, especially so when something new and cutting-edge is released"





Tween-Day

Mumbai: Tween Role Model

Payal Khanna/13

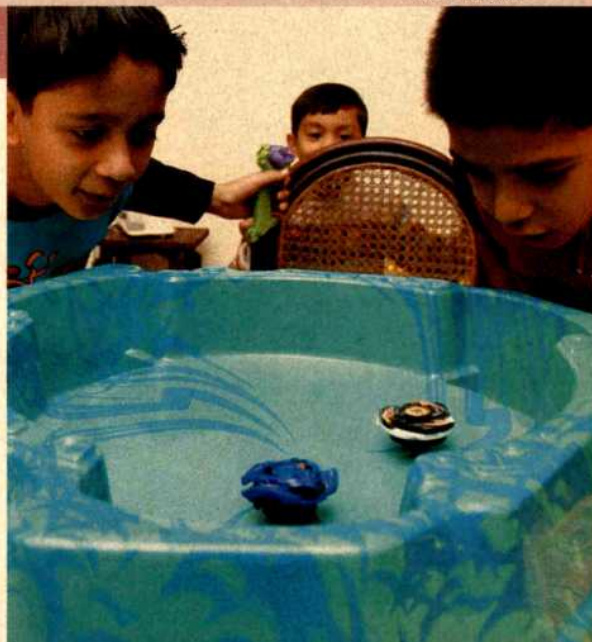
PAYAL IS 13 AND NOT EXACTLY A TWEEN IN THE STRICT sense of the term (actually marketers consider 13 a cusp year; mostly-tween-with-a-dash-of-teen-spirit), but she figures in this listing because she is a role model for tweens, sub-tweens, even teens. That rock-star (we're not kidding) status comes to Payal courtesy the *Studio Disney* show she hosts for Disney Channel on weekdays. On our date with Payal, we pick the

VIVAN MEHRA

Delhi: Growing Up Early

Shantanu Kumar/10

ONE DAY TOWARDS THE END OF NOVEMBER, SANSKRITI, one of Delhi's best-known schools was evacuated following a bomb-scare. Memories of an early November carnage still fresh in their minds (Three bombs burst in crowded Delhi markets in early November), the children trooped out of school only to come up against a horde of camera-wielding reporters at the gates. "We thought we would be on the front pages of all newspapers," says Shantanu (left), who was disappointed when the news made Page 3, minus pictures. Shantanu is up at six every morning to get ready for school. He is back at two, and prefers home-cooked food because "it is good for health". Post lunch, he and his four-year-old brother pull out beyblades. Then it's time for cricket, then dinner at eight in the evening. Homework and TV are crammed in post-dinner.



Kolkata: Great Expectations Redux

Sourav Banerjee/11

SOURAV IS DIFFERENT FROM YOUR EVERYDAY TWEEN AND HE isn't. He is different because he is the grandson of the late great Uttam Kumar, the Bengali film industry's best-known actor ever. He himself has starred in an award-winning motion pic, *Patalghar*. He lives in an old mansion in an old part of Kolkata, is up at six every morning to learn classical music, and wants to become an actor. That's where the difference ends. For, Sourav does things every other tween would. He splurges on CDs and DVDs. Like any other young boy, he obsesses about cars. He advises everyone in the family looking to buy a car on not just the make and the model, but the kind of interiors the car should have. He can't read enough about cars. And, he has an enormous collection of dinky cars. Then, he is also quite a clotheshorse with special outfits for occasions. So, there.

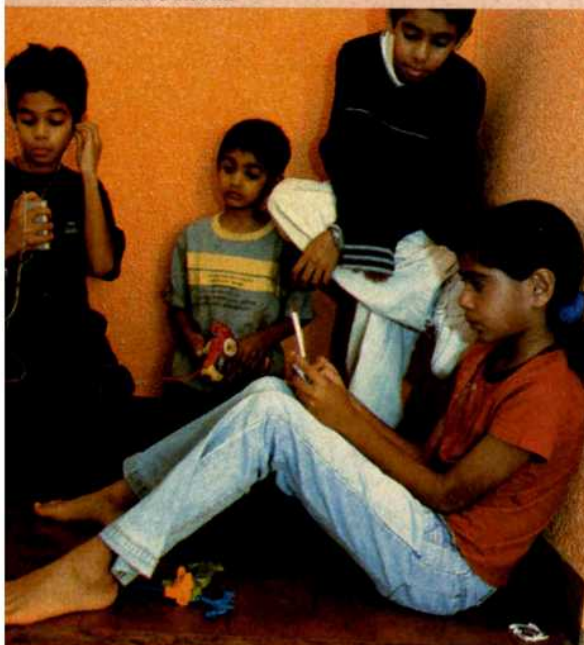


A Day in the Life of an Indian Tween in the Metros

young (and famous) lady from school. She poses nonchalantly, and with the air of someone who has done this countless times, at the gate. Today, a couple of her friends are heading home with her. One of them has just discovered Yahoo Messenger and wants Payal to download it too so that they can keep in touch; they are headed to Payal's home ostensibly to help her download the utility. Post the download and post-lunch, Payal shows us some dance moves (she has been through a

full-fledged course at Shiamak Davar's school). And since Disney doesn't require her services for the day (she typically spends about six days a month at the studio), it gives her time to play a game of Uno (a card-game for kids played with a special pack; the rage all over the world), and a few rounds of badminton with friends. Then, the friends head home, and she starts to prepare for a birthday party she has to attend. That's a complete day. And a packed life.

DEEPAK G PAWAR



Bangalore: Sunday Best

Zoya Toshniwal/8

IT'S EARLY ON A SUNDAY MORNING, AND THE ONLY REASON Zoya (foreground) is up is because she has to meet with this writer. Otherwise, she is allowed to sleep late. Not for her, crowded Sundays packed with all kinds of classes (art, dance, pottery, karate, etc). Instead, the Class III student, who, according to her mother leads an "unstructured and relaxed life" (the only classes she goes to are art ones, and that too only on weekdays), spends her Sunday mornings with parents, visiting relatives and friends. By her own admission, Zoya spends Sundays listening to music (on an iPod), engaging in beyblade battles with friends, playing badminton, or spending quality time on her Nintendo GameBoy Advance console. This Sunday, it was an afternoon at the Bangalore Club with her parents, then a quiet evening at home, and preparation for the busy week ahead at school.

A PRABHAKAR RAO

Hyderabad: Lil Ms Perfect

Supriya Chak/12

DIE KÜHLSTEN MÄDCHEN (GERMAN FOR THE COOLEST GIRLS) IS the name of the club Supriya (foreground) and her friends have just formed. German, to avoid "the boys from knowing", laughs Supriya. Recently, the club's first meeting was held at her house and after its 10 members spent a morning having fun, they headed off to a restaurant for lunch. The club is just one of the things that has been on Supriya's agenda. The young lady's essay on the ethics of cloning has just cleared the first round in a nationwide essay writing competition, and her 16-hour days (half spent in school) include homework, badminton, piano practice, and more (she has also signed up for western dancing lessons). After an evening playing games with her brother Rahul (15) and her parents, it's time for bed and bedtime reading (Supriya is currently reading Dan Brown's *Angels and Demons*).



The Atypical Indian

A BT-SYNOVATE STUDY

THERE ARE TWEENS. THEN, THERE ARE TWEENS. TO UNDERSTAND JUST HOW MANY different kinds of tweens there are in India, *Business Today* commissioned market research firm Synovate to conduct a quantitative and qualitative exercise across six Indian cities—Delhi, Mumbai, Chennai, Kolkata, Hyderabad and Bangalore. The target audience were 8-12 year olds who belonged to households in the higher reaches of the socio-economic classification (SEC), SEC A, and B. In the first stage of this exercise, 563 respondents across the six cities were administered an in-depth questionnaire to understand their lifestyle, aspirations and influences, attitudes and values, involvement in purchase

TWEENTYPE-I

The All Indian Jock/Cheerleader

Brash, spoilt, not academically oriented, and prone to tantrums, that's Twentype-I.

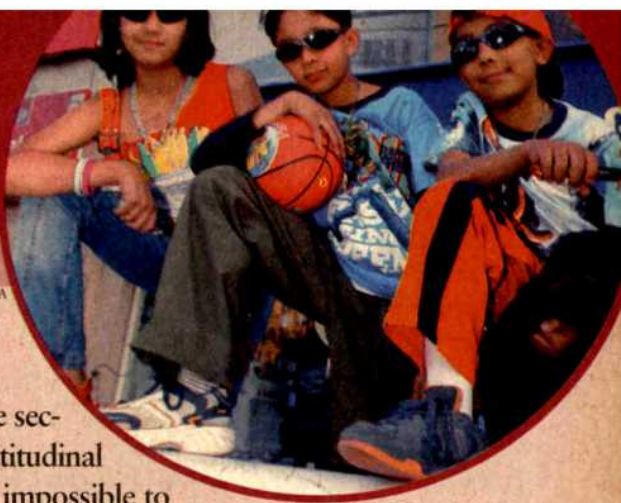
IF THERE IS A STEREOTYPICAL SPOILT-rich-kid segment, this has to be it. Like most other segments, it is marginally skewed in favour of boys (50+ per cent), but then so is the sample. Expectedly, tweens from this segment receive the most pocket money. Attitudinally, apart from believing strongly that it is alright not to come in first in class, these tweens insist that their parents give them lots of space. When seen in consonance with another, seemingly incongruous finding—these tweens also swear that their parents spend lots of time with them—that means that the parents of these tweens pretty much give them a free rein when it comes to most things, and the tweens like it that way. The good news for marketers is that tweens from this segment will likely



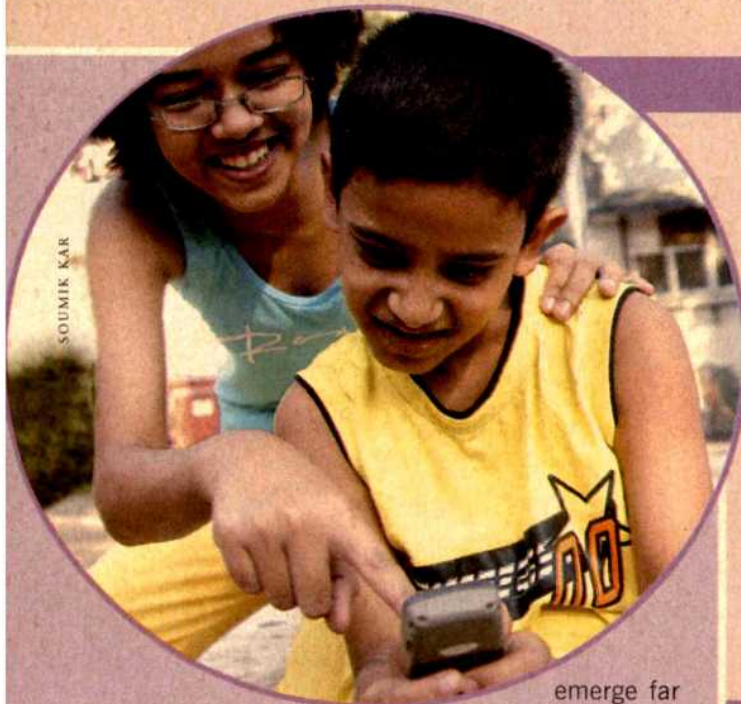
ILLUSTRATIONS BY RAMEN SARKAR

Tween

VIVAN MEHRA



decisions, media habits and consumption patterns. In the second stage, focus groups were conducted to understand attitudinal and behavioural facets of tweens that would be close to impossible to capture in quantitative exercises. Based on both sets of findings, Synovate arrived at four tween segments: The All Indian Jock/Cheerleader; The Traditional Reticient; The Dependent Diffident; and The Righteous Angel. Each segment is unique in some ways and the same in some others. Clearly, most children in the 8-12 age group, and from similar backgrounds tend to think and behave alike sometimes and very differently at some others.



SOUMIK KAR

emerge far more brand conscious customers by the time they are into their teens and 20s than those from other segments. And the good news for people generally dismayed by the fact that these tweens are spoilt is the fact that they aren't entirely so. In many ways, The All Indian Jock/Cheerleader is no different from other tweens. It is just that their parents have led them to believe that they are little princes and princesses for far too long. Surprisingly, though, a mere 15.2 per cent of tweens fall under this category. That would seem to suggest that most Indian parents (at least, most Indian parents belonging to a certain economic class) are pretty good at raising children.

Purchase Involvement

The All Indian Jock/Cheerleader isn't as involved with big-ticket purchases as one would expect.

Television/Home Theatre	55
Cars	22
Refrigerators	44
CD Players/Personal Audio Players	38
PCs	37
Mobile Phones	40

Preferred Activities

For a segment that isn't very family-oriented, the All Indian Jock/Cheerleader is strangely fond of family functions.

Family get-togethers	62
Get-togethers at friends' places	56
Watching sports telecasts with friends	47

Figures in per cent



Money Matters

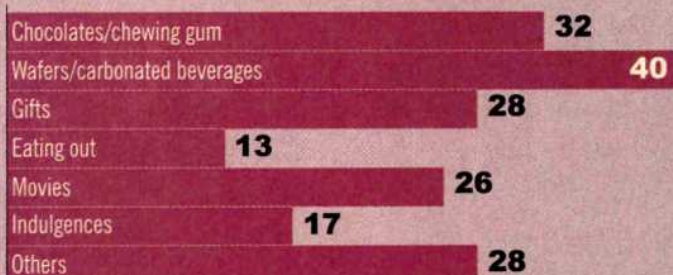
The All Indian Jock/Cheerleader is the 'richest'.

Average pocket money received: RS 421.86/month

Percentage of respondents that receives more than Rs 1,000: 7

Percentage of respondents that spends it all: 24

Where Does The Money Go



Figures in per cent

GRAPHICS BY PINAKI PAUL

Special Interest Areas

Don't be fooled by the 'reading knowledge books' bit.

Reading 'knowledge-related' books	45
Listening to music	36
Painting	34
Watching cartoons on TV	34
Reading comics/magazines	33

Preferred Vocations

No surprises here, although it could just be peer pressure speaking.

Doctor	20
Teacher	15
Engineer	13
Scientist	7
Cricketer	6
Fashion Designer	6

Figures in per cent
Multiple responses possible in all



TWEENTYPE-II

The Traditional Reticent

Quiet, ambivalent to most things, and a **traditionalist at heart**, that's Twentype-II.

THIS SEGMENT IS THE SMALLEST, WITH A MERE 11.8 per cent of tweens falling under it. That's a pretty good thing because this is the toughest segment to describe. The difficulty arises from the sheer ambivalence of Traditional Reticents to most things. While their value system is pretty close to that of The Righteous Angels

Preferred Activities

No surprises here, the family comes first for the Traditional Reticent.

Family get-togethers	54
Watching sports telecasts with friends	51
Get-togethers at friends' places	43

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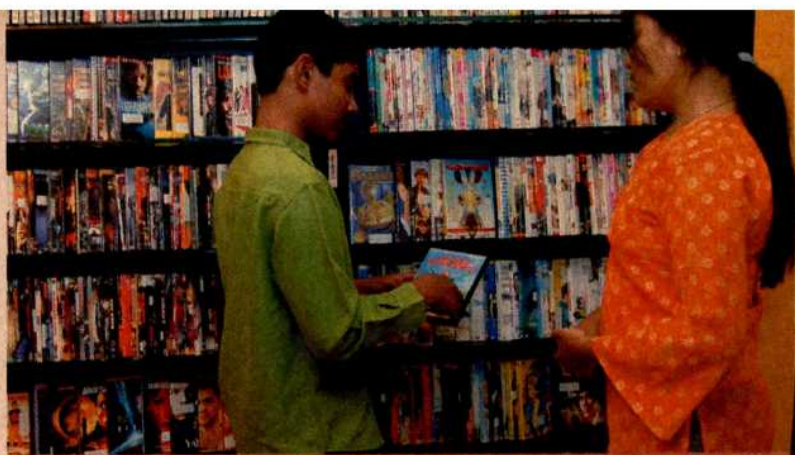
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(Twentype-IV) that account for 47.51 of the tween population, Traditional Reticents do not really seem to care about most things. Their parents, too, do not seem to have very high expectations of them. Predictably, this is the segment that has the least influence (among all segments) when it comes to big-ticket purchases being made by the family. It is difficult to see tweens belonging to this segment emerging very brand-aware consumers (although that possibility cannot be written off). And it is difficult to see tweens belonging to this segment going on to very successful careers simply because their achievement-orientation seems pretty low (although that can't be deduced from their reaction to all things academic, which is not as extreme as that of other tweens from other segments, and is, actually, ambivalent). Then, it may be unfair to write off Traditional Reticents. There are some tweens that are late bloomers that discover direction in their teens, sometimes even in their 20s, and go on to have very successful careers. After all, it wouldn't do for this, a business magazine, to ignore the fact that more Traditional Reticents, than any other segment, want to grow up and become business executives.



G. KRISHNASWAMY

Purchase Involvement

The Traditional Reticent has almost no say in big-ticket purchases.

Television/Home Theatre	18
Cars	7
Refrigerators	13
CD Players/Personal Audio Players	18
PCs	22
Mobile Phones	17

Money Matters

The Traditional Reticent is the most prudent.

Average pocket money received: Rs 287.69/month

Percentage of respondents that receives more than Rs 1,000: 0

Percentage that receives between Rs 600 and Rs 1,000: 7

Percentage of respondents that spends it all: 12

Percentage of respondents that saves half: 81

A. PRAHAKAR RAO



Where Does The Money Go

Chocolates/chewing gum	60
Wafers/carbonated beverages	46
Gifts	23
Eating out	19
Movies	33
Indulgences	6
Others	8

Figures in per cent

Special Interest Areas

Expectedly, 'inward-oriented' activities are in:

Reading 'knowledge-related' books	60
Listening to music	51
Painting	38
Watching cartoons on TV	34
Playing musical instruments	29

Preferred Vocations

Is the business execs thing a reflection of the kind of homes they come from?

Doctor	25
Engineer	25
Business Exec	13
Teacher	9
Pilot	7

Figures in per cent
Multiple responses possible in all

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TWEENTYPE-III**The Dependent Diffident**

Toeing the parental line and still clutching on to the apron strings, that's Tweentype-III.

THERE ARE SOME TWEENS THAT DO NOT REALLY HAVE VIEWS of their own (and there is nothing wrong with that; after all, these children are between the ages of 8 and 12, and cannot be expected to have views of their own; still, in this day and age, opinionated and precocious children are more the norm than the exception). The Dependent Diffidents (25.38 per cent of the tween population) have views, but these largely tend to reflect those of their parents. That could explain why these tweens play a far greater role, than tweens from any other segment, when it comes to purchase decisions involving big-ticket items. For instance, 74 per cent of Dependent Diffidents claim their views were sought when their families acquired televisions or home theatre systems. And, that could explain why tweens belonging to this segment receive the least pocket money. They probably get their parents to buy almost everything for them, and do not feel the need to have money 'of their own'. The achievement orientation of these children is high and is likely an indication of the high expectations their parents have of them. Does that mean these tweens will grow up to be just what their parents want them to be? Not quite. Teenage is normally a period when children rebel or decide to establish their independent identity and these tweens will soon get there. The good news for marketers is that, although these tweens appear to exert a lot of influence on big-ticket purchases made by their families, they do not need to work hard to address them. The same communication targeted at their parents will do.

UMESH GOSWAMI

**Purchase Involvement**

Surprise, surprise, the Dependent Diffident is the most influential of tweens.

Television/Home Theatre	74
Cars	26
Refrigerators	67
CD Players/Personal Audio Players	30
PCs	39
Mobile Phones	53

Preferred Activities

It's the family again.

Family get-togethers	60
Watching sports telecasts with friends	51
Get-togethers at friends' places	45

Figures in per cent



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Money Matters

The Dependent Diffident is the poorest of the tweens.

Average pocket money received: Rs 192.18/month

Percentage of respondents that receives more than Rs 1,000: 0

Percentage that receives between Rs 600 and Rs 1,000: 5

Percentage of respondents that spends it all: 18

Percentage of respondents that saves half: 62



SOUMIK KAR

Where Does The Money Go

Chocolates/chewing gum	50
Wafers/carbonated beverages	46
Gifts	32
Eating out	10
Movies	7
Indulgences	18
Others	16

Figures in per cent

Special Interest Areas

There are several, but interest may be the wrong term to use.

Reading 'knowledge-related' books	53
Listening to music	47
Playing musical instruments	41
Watching cartoons on TV	34
Playing cricket	29

Preferred Vocations

Medicine is in, but the response may be conditioned.

Doctor	36
Engineer	18
Teacher	11
Pilot	7
Scientist	4

Figures in per cent
Multiple responses possible in all



TWEENTYPE-IV

The Righteous Angel

Home-birds with an active outside life, good at school, and with a **strong value system** to boot, can Tween-type-IV ever do any wrong?

THERE'S A REFRAIN THAT CAN BE HEARD FREQUENTLY today, about young people growing up faster. The Righteous Angels, the largest segment of tweens (47.51 per cent of the tween population belongs to this), are an indication of

Preferred Activities

The most balanced segment, righteous angels may also be the most truthful.

Watching sports telecasts with friends	57
Family get-togethers	52
Get-togethers at friends' places	43

100%

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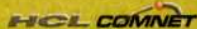
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that, and judging from their attitudes and behaviour, it (young people growing up faster) seems to be a good thing. Righteous Angels display a degree of balance that should be the envy of even the most evolved adult. For instance, tweens from this segment do not mind missing out on fun and games if it means securing the top rank in an examination. However, that desire to excel doesn't prevent them from believing that the system has too many exams for their liking. Strangely enough, Righteous Angels are more likely to insist that their parents take them out to a specific place and like to wear new clothes all the time. Then, that could be their reward (or a trade off) for being Righteous Angels. They are also more likely to be irritated when their parents push them to do something they do not want to, or to come first in class. One way of looking at this is to surmise that since these children know their minds and are achievement-oriented for their own sake, they do not like to be pushed. The other—Righteous Angels also believe that their parents do not give them enough space—is to conclude that being a good child doesn't mean you are never rebellious. Either way, marketers would do well to speak to these children on their own terms and not on those of their parents. ■



SOUNIK KAR

Purchase Involvement

Given their inherent goodness, the righteous angels never push for anything.

Television/Home Theatre	34
Cars	21
Refrigerators	28
CD Players/Personal Audio Players	33
PCs	38
Mobile Phones	30

Money Matters

Righteousness doesn't mean they won't spend money.

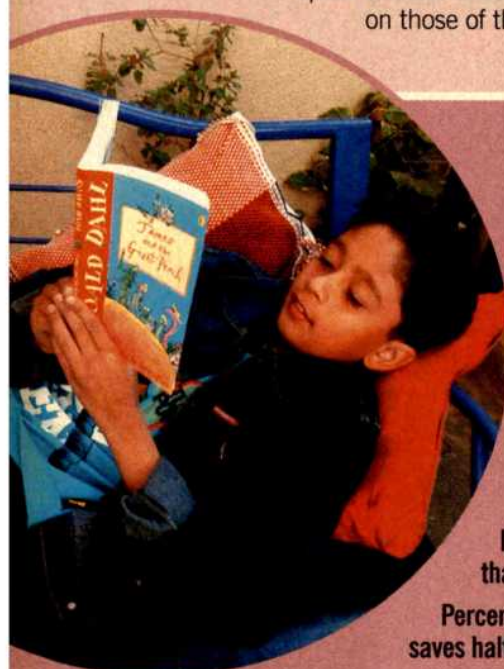
Average pocket money received: Rs 245.09/month

Percentage of respondents that receives more than Rs 1,000: 0

Percentage that receives between Rs 600 and Rs 1,000: 3

Percentage of respondents that spends it all: 23

Percentage of respondents that saves half: 64



VIVAN MEHRA

Where Does The Money Go

Chocolates/chewing gum	53
Wafers/carbonated beverages	56
Gifts	29
Eating out	26
Movies	15
Indulgences	19
Others	22

Figures in per cent

Special Interest Areas

The Righteous Angels are more interested in more activities than others.

Reading 'knowledge-related' books	66
Listening to music	46
Watching cartoons on TV	45
Playing musical instruments	35
Painting	33

Preferred Vocations

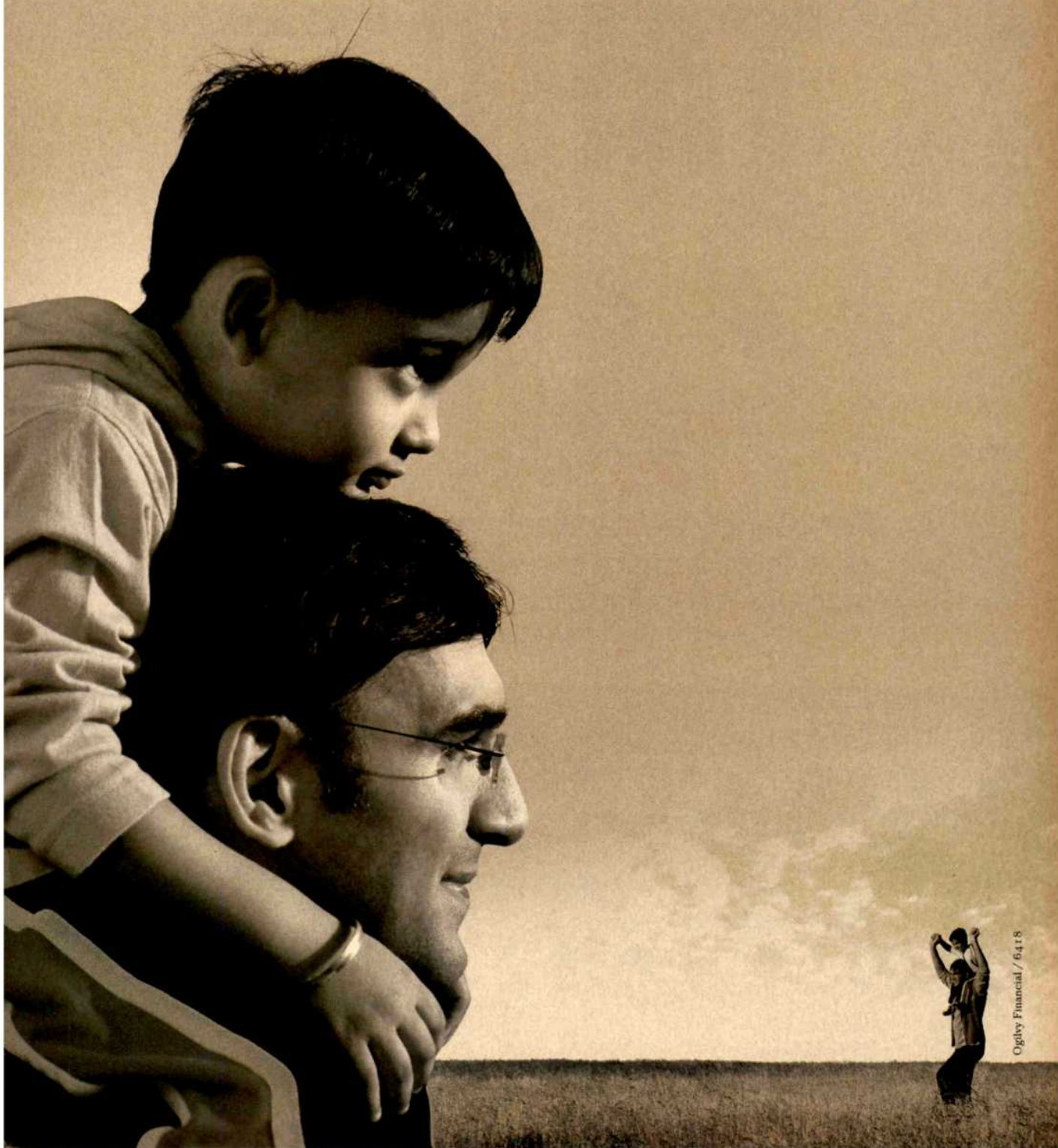
The same story, all over again.

Doctor	29
Engineer	19
Teacher	12
Pilot	5
Armed Forces	4

Figures in per cent
Multiple responses possible in all

Note: The photographs of the tweens shown here have been used generically and do not indicate that they belong to a particular segment

Today he's perched up here for a better view. Down the years, I will show him life's beauty. I will show him its imperfection. More importantly, I will show him how to fly to a nest of his own. And then, I'll start right over with my grandson. Celebrate life.



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SENSEX 2006: TARGET 12,000?

Another year of spectacular foreign inflows, or is the best over, or is there a sharp correction on the cards—what lies in store for the Indian stock markets in the new year?

MAHESH NAYAK

PHOTOGRAPHS BY AP

BULLISH SCENARIO

Sensex pole-vaults into 12,000 territory



LIKELIHOOD: 40-50 per cent in the next six to 12 months

EARNINGS GROWTH PROJECTION: 20 per cent for the next four quarters

P-E AT THESE LEVELS: 18-19

REFORMS FROM GOVERNMENT: Many

GDP GROWTH PROJECTION FOR 2005-06: 8-8.5 per cent

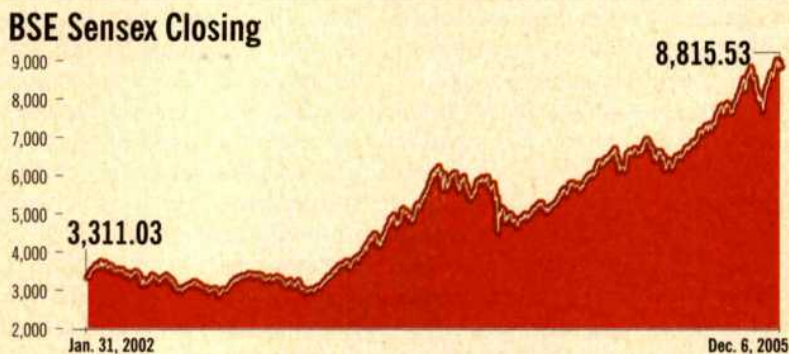
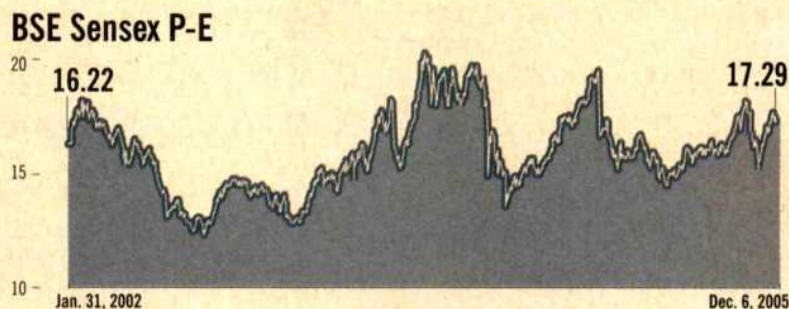
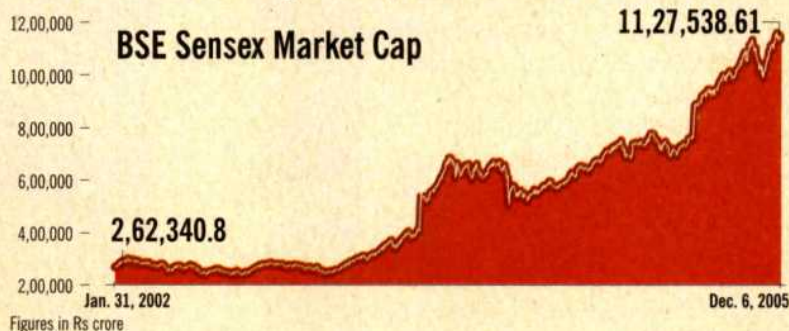
OTHER JUSTIFICATIONS: Government embarks on second wave of reforms, like allowing FDI (foreign direct investment) in retail space or further opening up the power sector or the introduction of pension reforms; flows from local funds and retail investors gather momentum; investments in infrastructure register a significant increase; rural spending rises on the back of a good Rabi crop and higher industrial activity



IT TOOK ALL OF \$4.3 BILLION (RS 19,350 crore) of inflows from foreign institutional investors (FIIs) to propel the benchmark Sensex from 7,000 to 8,000 points. On November 28, when the 30-share BSE index shot into the stratosphere of 9,000, it took just \$796.20 million (Rs 3,583 crore approx.) of FII greenbacks to boost it into that region from the October 28 closing of 7,656. Don't delude yourself into believing that perhaps the liquidity created by domestic mutual funds and the good old retail Joe contributed their mite to the Sensex surge. The simple truth is that when the index touched 9,000—for the first time in 131 years of trading on the BSE—the spurt came on the back of low volumes—9 per cent lower than in October. That's enough reason for concern in pockets of Dalal Street. As Andrew Holland, Chief Administrative Officer & Executive Vice President (Research), DSP Merrill Lynch, points out: "The mood is extremely cautious as the market from these levels looks overvalued. The lower volumes and lower FII net investments have also contributed to that mood."

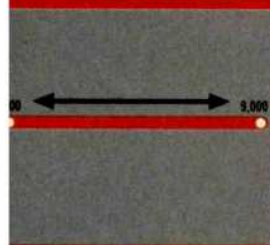
Then again, you have the bulls, one of them being Gurunath Mudlapur, Managing Director,

It's Been A Heady Ride, And It Isn't Over Yet



STATUS QUO SCENARIO

Sensex hovers around 9,000 territory



LIKELIHOOD: 15-30 per cent

EARNINGS GROWTH PROJECTION:
15-20 per cent

P-E AT THESE LEVELS: 15

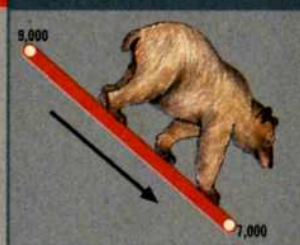
REFORMS FROM GOVERNMENT: Few

GDP GROWTH PROJECTION FOR 2005-06:
7-8 per cent

OTHER JUSTIFICATIONS: Corporate earnings growth, though not disappointing, is in line with market expectations, of 15-20 per cent; FII inflows are targeted more towards the mid caps than the large caps, resulting in modest liquidity conditions; the markets will continue to be rangebound, as upward moves aren't backed by strong volumes and robust inflows from foreign institutional investors (FIIs)

BEARISH SCENARIO

Sensex slips back into 7,000-7,500 territory



LIKELIHOOD: 10-30 per cent

EARNINGS GROWTH PROJECTION:
Lower than 15 per cent in the next two to three quarters

P-E AT THESE LEVELS: 12-13

REFORMS FROM GOVERNMENT: Negligible

GDP GROWTH PROJECTION FOR 2005-06: 6-6.5 per cent

OTHER JUSTIFICATIONS: FII flows dry up, global crude prices touch \$70 (Rs 3,150) per barrel in the January-March period, rupee weakens on account of a strengthening dollar, India's current account deficit, already 2.5 per cent of GDP, continues to rise, corporate performance slows down to under 15 per cent earnings growth, lack of reforms ahead of elections in West Bengal and Kerala

Atherstone Institute of Research. Mudlapur is convinced about the long-term opportunity that exists on the Indian markets, courtesy strong economic growth and attractive relative valuations. He's hopeful that good GDP numbers, boosted in no small measure by an impressive Rabi crop, will boost rural spending. Mudlapur expects the Sensex to hit 11,500 in the next six to 12 months. "My optimism is based purely on the India growth story and the impressive second quarter GDP growth of 8 per cent (6.7 per cent in the previous year's corresponding period), which was driven by strong growth in manufacturing and services."

So, is the Sensex set to break out of the 8,900-9,000 range, and shoot into further uncharted territory? Or can it slide back to the 7,000-7,500 levels? One area of concern is the seemingly overvalued nature of the Indian markets, what with the Sensex quoting at a price-earnings (P-E) multiple of 18, based on 2005-06 earnings. This makes India one of the more expensive markets in the world, more dear than Russia, Brazil, Korea, Pakistan and Sri Lanka. Yet, the bulls out there are counting on solid future earnings growth, which will effectively rein in on the high P-E levels at higher index levels. Amit Rathi, Managing Director, Anand Rathi Securities, actually feels that the Indian market looks cheap if you consider the earnings growth that's yet to come. At the current index levels, his brokerage has projected a P-E of 14.4 times on March 2006 earnings and 12.56 times on March 2007 earnings.

Still, you have to be an unabashed optimist to be able to confidently predict profits of Indian corporates for the next six quarters. The current trend isn't very encouraging, pointing to signs of a slowdown. For the quarter ended September 2005, net profits grew



The bulls are riding on their conviction of the **long-term India** story, courtesy strong growth and attractive valuations

by 13 per cent compared to 29 per cent in the corresponding period of the previous year. Sales growth also stuttered, from 21 per cent last September to just 8.3 per cent. What's more, for the second quarter of 2005-06, earnings growth of the Sensex was 23 per cent on a year-on-year basis, which is lower than the 31 per cent growth reported in the first quarter. "Markets aren't cheap at current levels," grimaces S. Naren, Co-head (Equities), Prudential ICICI AMC, who feels there could be disappointment on the corporate performance front, as the market has already discounted 2007 earnings.

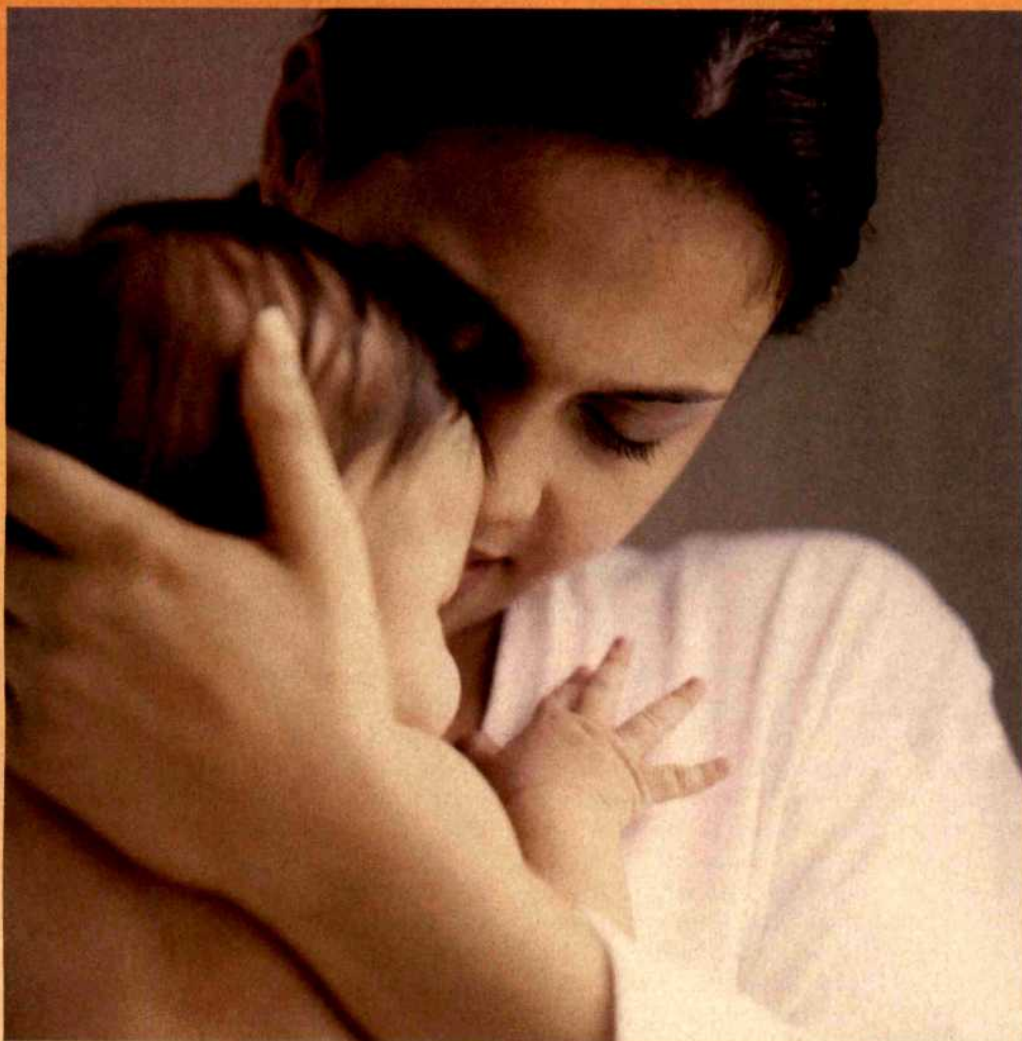
With the Indian markets still largely driven by FII liquidity, plenty depends on which direction the inflows are headed. Says Naresh Kothari, Head (Institutional Equities), Edelweiss Securities: "Liquidity will be the biggest factor in dictating the trend in the market. If liquidity stops, the valuations will get lined to their fundamentals. There are possibilities of the Sensex coming down to the 7,000-7,500 levels." Holland feels that with the Sensex P-E trading above 17 times and the US interest rates expected to rise to 5 per cent, FII inflows can only slow down. Pressure on liquidity could also arise in the wake of

rising commodity prices, especially global crude oil, currency depreciation, rising deficit of the government, liquidity pressure in the economy and delay in implementation of infrastructure projects.

The current account deficit, which is about 2.5 per cent of the total GDP, is one sure-fire worry. If one looks at the Indian trade deficit numbers, there is an average deficit of \$3 billion (Rs 13,500 crore) per month. So far, this gap has been made up by FII inflows. The day the deficit is no longer matched by corresponding capital flows, it will impact the rupee exchange rate. The high trade deficit continued to weigh on the rupee, which weakened by 1.7 per cent in the last one month.

If Ajay Mahajan, President (Financial Markets & Institutions), YES Bank, is upbeat that the rally will continue, it's for all the usual reasons (strong fundamentals, outsourcing story, second wave of reforms *et al*). Plus he's also banking on increased participation from the retail investor. Clearly, the indices are surging upwards on the back of strong FII flows, but if the bull market has to be sustained over the longer term, more and more retail investors will have to become disciples of the equity cult. ■

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Bill Gates

Chairman & Chief Software Architect/ Microsoft Corporation

"The Next 10 Years Will Be The Most Exciting Period Ever"

HIS SILICON VALLEY'S ORIGINAL POSTER boy. Geeky, self-made, and fabulously rich (actually, the world's richest). Thirty years after he founded Microsoft along with buddy Paul Allen, Bill Gates continues to have a stranglehold on the PC market. Nine out of every 10 PCs in the world use Microsoft software. Yet, Gates sees potential all around. On a four-day visit to India last fortnight, and accompanied by his wife Melinda, Gates unveiled a massive \$1.7-billion (Rs 7,650-crore) investment plan. Even as he hopped across the country (he visited Delhi, Chennai and Bangalore), meeting with politicians and bureaucrats, he deftly combined the twin task of evangelising Microsoft's vision of the future and taking stock of the work being done by the Bill and Melinda Gates foundation, which he has endowed with a staggering \$28.8 billion (Rs 1,29,600 crore). On his ride back from Tamil Nadu Chief Minister J. Jayalalithaa's office to the Chennai airport, Gates, accompanied by Microsoft India Chairman Ravi Venkatesan, spoke with BT's Venkatesha Babu. Excerpts:

How much of a threat is Google to Microsoft?

What Google offers today in terms of products is quite interesting. They have the leading web search site and people are looking at whether we will be able to do things better and compete with them. And I think this

is just a great example of how competitive this business is. Google did not even exist six or seven years ago and now they are a company worth over a \$100 billion (Rs 4,50,000 crore) and they are darlings of the press in terms of doing new things (smiles). We are absolutely building our search capability that we think will be better than what Google will offer and the only clear winner in that competition are the consumers.

Is the entire Windows Live initiative (web-based software products) that you have been pushing, aimed at combating Google and, say, its other offerings like its partnership with Sun to push a free office suite?

No. Google and Sun are two different companies. The press has been really smart to realise that (their partnership) has really no content. I don't hear Sun as much as I used to (smiles). Mostly it is Google, Yahoo and eBay. Windows Live is not just about web search. It is about...for example, you move from one PC to another or move from a PC to a phone, having your information automatically show up, your files, your calendar, your favourite links and being able to do it automatically, so that you get more value out of the devices. It is actually a very user-centric thing. And that is not something anybody has done before. We now understand how exactly we can do that. Windows Live is more about these things rather than about any particular company.



The woman behind Gates: Wife and former Microsoft engineer, Melinda (background) co-chairs their philanthropic foundation

Are you looking at an acquisition (like of AOL that has been rumoured) to strengthen yourself in this space?

Frankly, there are many respects in which Google is the leader, many respects in which Yahoo has certain strengths. But given our popularity in instant messaging and Hotmail, all players will innovate and compete and try to gain more share. Every year we make lots of small acquisitions. That will continue because there are lots of innovative things that help us execute faster by acquiring. We have never used big acquisitions as a huge part of our strategy. The only exception to this is in the applications space, where we bought Great Plains. That was a good-sized acquisition. Other than that, we have made just small acquisitions and aimed at organic growth. That will be probably the framework as we go forward.

The open source community seems to be gaining steam across the globe. Is this a matter of concern for you?

Businesses have always used commercial software because of the kind of support and indemnification, compatibility and innovation that comes from commercial software. Some people have said that Indian developers should just do this open source and give away all their work (for free). But I say that the quality of work done here is such that it deserves to be licensed, paid for...that is the way you create new jobs, reward people so that they can benefit from it. That is what creates the (virtuous) cycle that helps companies create jobs, pay their taxes and allows governments to invest more in the kind of basic research at university level work.

Have you been advocating this to the governments, as most of them (states) in India have been talking of going the open source way?

Well, actually we have shared portions of our operating system (OS) used in any country, including Windows, by governments. You see what has happened is that the use of proprietary Unix and mainframes has

started to go down. What's happened is people have started using Intel-type hardware and Windows. That's gone up. Within the Unix space, those running on proprietary hardware has gone down, while those running on Windows has gone up.

RAVI VENKATESAN: In the desktop market our share remains exactly what it was and we closely looked at Linux shipments and that is what we call 'Surrogate Piracy'. Once it gets into users hands, they essentially use pirated version of Windows. On server side, our market share has gone up from 56 to 64 per cent. We are doing very well. The real casualty has been Unix.

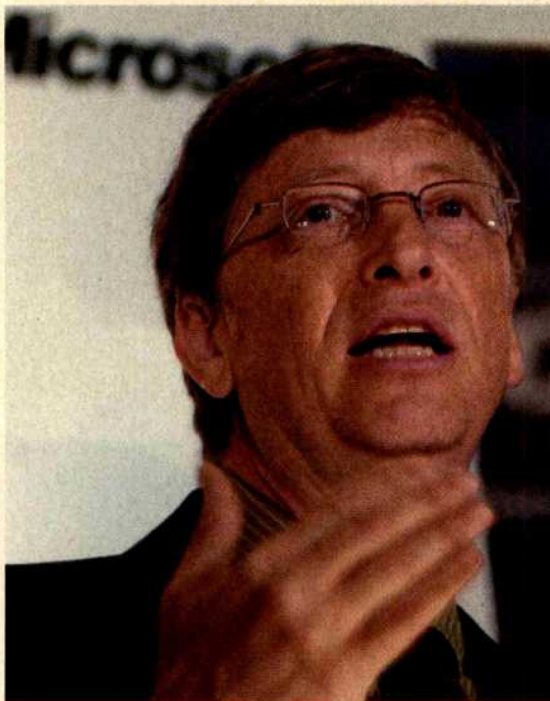
Is MS trying to build itself into an all-in-one tech giant, spanning not just software but also hardware, since MS sells computer peripherals and now the Xbox in a big way?

No. In fact, part of the strength of our model is how dependent we are on our partners. We don't make hardware. The Xbox is a special case. In future generations we will change that to pure software because of the subsidised hardware there. We let Intel and AMD do the chips, we let people like HP and many others do the PCs. We will just do what we are best at. Also, most of the value gets created on top of us in terms of applications or services. That is why the strength of the great companies here in India that have become the best in the

world on software services, they have been using our platform and that is why they have been growing so much. We will never ever try do everything. The only company that ever tried that was IBM, which tried to sell hardware, software, applications and consulting. In contrast, Microsoft teams up with partners here to offer complete solutions to customers.

What are the three really big opportunities in the tech world that excite you today?

Well, broadly. Digital Workstyle, Digital Lifestyle and Digital Inclusion. The Digital Workstyle, the way people are still using



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"The \$1.7-billion investment here is a review of how far we have come and a commitment to grow this business"

paper today, trying to work across company boundaries, across different locations. Even MS office, with all its success, scratches the surface in terms of empowering workers with lots of information, allowing them to collaborate and even next year, when we release MS Office 12 SharePoint, we take this to a new level.

I am also excited about Digital Lifestyle, the way you organise your schedules, music, photos, different activities. All this is being done more on a digital basis. These things are affecting all sections of the economy, even in education will be better done. You go across to the internet, find people with similar interest. The next 10 years will be the most interesting our industry has ever seen.

The current Digital Lifestyle works well if you are well to do, whether in India or the US. But to achieve the original vision of a computer on every desk and in every home, we have a long way to go in terms of relevance, simplicity, ease of use. And low cost. We have to make a lot of innovation to appeal literally to the rural and poor users. India is the place where we are pushing this more than anywhere else. In fact, we have many groups in India doing super well. One that is not the largest, but my most favourite, is our research group we put in here that looks at new approaches for low-cost computing and come up with products that combine the best of features of cellphone and PCs. We have real dedication to that and we have taken concrete steps. But there is a lot more we can do.

You have announced this \$1.7-billion investment in India. Were you little bit late to realise the India potential?

No. We have used this opportunity of my visit here to just dimensionalise the thing that MS is doing here. But many people might not have recognised our growth here, including our fourth research centre here, some of the services work we do, the maturity of the MS India development centre. We have been hiring



here hugely and working, investing with our partners to grow our business. So, it is not as though my announcement is just a discontinuity. It's simply a review of how far we have come and a commitment to grow this business. If anything, we have been conservative in telling our story here. I would like you to examine a year from now which (of the announcements made by majors) and how far they have come (laughs).

What should Indian IT services company do more to reach the next level. Do you see a product success story coming out of India?

(Laughs, pointing out of the car) Well, we are driving past the Intellectual Property

of India (office). The domestic market could grow faster and bigger, and become more helpful to them. The huge spectrum that people talk about, software services and products, is not a black and white thing. In fact, our Live software showcases that best. The Indian companies will have to continue being the best. Product success story from India...near future, in the next 2-3 years, unlikely. Will it happen in the next 10-15 years? It is extremely likely.

You have been giving away a considerable portion of your wealth through the work being done by your foundation. What gives you more joy, Microsoft or the foundation work?

Well, the biggest thing I have done in my life is the work I have done at Microsoft...the whole PC model. What it has been able to create is the sense of empowerment, nothing tops that. When I come to India, I see that in many ways. Students using computers or companies creating high-paying jobs here because of the model we brought in. Now, because of that success, I have this wealth and that brings huge responsibility to it give away back to the world in a way it will have the greatest of impact. If I did not have the MS success, I would not have this responsibility. I am able to use some skills and processes I learned there and apply this to charity. ■

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Who Is **P. K. Ruia**?

The man shot into prominence when he won the privatisation bid for Jessop and turned it around. He's again in the news following his buyout of Dunlop. Here's a 360 degree look at the man.

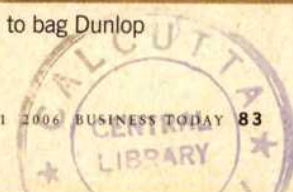
RITWIK MUKHERJEE

PAWAN KUMAR RUIA GREATLY admires Henry Ford. In fact, he's made one of the legendary American industrialist's quotes "When everything seems to be going against you, remember that the airplane takes off against the wind, not with it", the leitmotif of his life. It was evident in the first question the 47-year-old asked the thousands of workers who mobbed him when he first stepped into Dunlop India's long closed factory at Sahagunj in West Bengal on December 4: "Do you have an AITUC union here?"

Ruia's concern was understandable. The CPI-affiliated trade union and its irrepressible leader Gurudas Dasgupta have been major thorns in his side ever since he took over Jessop & Company three years ago. AITUC, which has a minority union at Jessop, organised demonstrations against him, issued damaging public statements about his antecedents

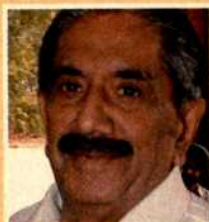


Standing tall: Ruia outbid J.K. Tyres and Hero Honda to bag Dunlop



CIRCLE OF FRIENDS

P.K. Ruia is a man for all seasons and has friends in high places. They span the entire political spectrum, from Left to Centre to Right, and include some big guns from India Inc., too. When *BT* asked him for names, this is the list he drew up.



R.K. DHAWAN
Leader /Congress

Shares strong bond with Gandhi family loyalist



AHMED PATEL
Leader /Congress

Another of Ruia's many political friends



SOMNATH CHATTERJEE
Speaker /Lok Sabha

Ruia trusts his proven legal acumen



PAWAN KUMAR RUIA
Chairman
Jessop & Company



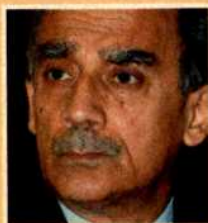
NILOTPAL BASU
Leader /CPI(M)

One of Ruia's close friends on the Left.



PRANAB MUKHERJEE
Defence Minister /Gol

Assured Ruia of defence department orders



ARUN SHOURIE
Leader /BJP

Sold Jessop to Ruia as disinvestment minister



S.K. BIRLA
Chairman /S.K. Birla Group

Ruia holds the entire family in great esteem



SAJJAN JINDAL
VC & MD /JVSL

The two have been friends for years

and even moved court against his takeover of the sick public sector machinery company. Fortunately for Ruia, he had the support of the CPI(M)-affiliated majority CITU union, and managed to turn around the company with its support.

But his handling of the often unpleasant situations provides a glimpse into the man's still evolving management style. He would call up Dasgupta directly to find out what his problem was. He has used this blunt and direct approach to sort out other problems as well. Whenever he faces issues relating to

industrial relations, he personally meets West Bengal Chief Minister Buddhadeb Bhattacharjee or state industries minister Nirupam Sen to iron them out. And when the Railways holds up Jessop's payments, he lands up at Union Railways minister Laloo Prasad Yadav's door. "This direct approach works wonders. There is no problem which cannot be sorted out across the table. Let me tell you that I've got support from all quarters—the Left and the

Congress. Union Defence Minister Pranab Mukherjee, for instance, has assured me that he will extend all possible help to see that Dunlop turns around," Ruia says.

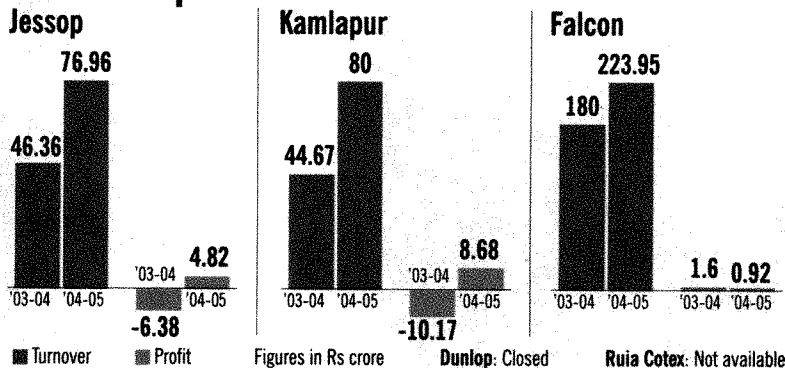
But despite his current high profile, little is known about the man. That's not surprising, considering that he was practically unknown even in his native Kolkata till three years ago, when he bought over the once-mammoth Jessop for a paltry Rs 18.80 crore. But his really big moment came last month when he sewed up a deal with the Dubai-based Jumbo Group to buy out its

holdings in Dunlop, Falcon Tyres and India Tyres for Rs 200 crore. Sources, however, indicate that the actual sum may have been much higher; some guesstimates peg the deal value at two times the disclosed amount. And Ruia estimates that he will have to invest another Rs 300-350 crore to put the company back on track. That's a tab of at least Rs 500-750 crore.

Where is he getting such humungous sums of money from? Ask the man and he simply says: "Internal accruals, loans from the Union Bank of India and IDBI and contributions from friends and associates." A peek into his businesses (see *Ruia's Empire*) doesn't reveal much. His privately held flagship, Ruia Cotex, which mainly trades in garments, is said to be his cash cow. Ruia declines to reveal any figures for the company, except to say that it's profitable. According to the grapevine, the company is on the block. The asking price: again Ruia refuses to talk, but sources say it's in the region of Rs 200 crore. "With his net worth"—Marwari circles in Kolkata peg it at about Rs 500 crore—"and his connections, it shouldn't really be a problem for him to raise the resources," says a businessman who has known him for sometime.

Fair enough. But why is Ruia—who's a CA and a lawyer by training—betting the bank on an industrial gambit that is at best uncertain? Dunlop is saddled with liabilities of Rs 650 crore. Taking on such a mountain of debt is fraught with risk. "We don't really have to turn around Dunlop. It will make profits from the day we restart production (his optimism stems from assurances he's received on defence orders). My biggest challenge will be to negotiate with creditors and draw up a schedule to settle the liabilities," says the man who inherited two small scale units—making ceramics and chemicals—near Kolkata

Ruia's Empire



Cost Of Acquisition



Source: Company reports

from his father. Both have downed shutters, but Ruia has moved on.

Insiders say he's really playing out his childhood fantasy of becoming a hotshot industrialist. There was a textile factory, owned by the Birlas, near his school at Pipri in Mirzapur district of Uttar Pradesh, where the Ruia family lived before moving to Kolkata in the 70s. The image of that factory and stories about the incredible wealth and power of the Birlas have reportedly fired his imagination ever since.

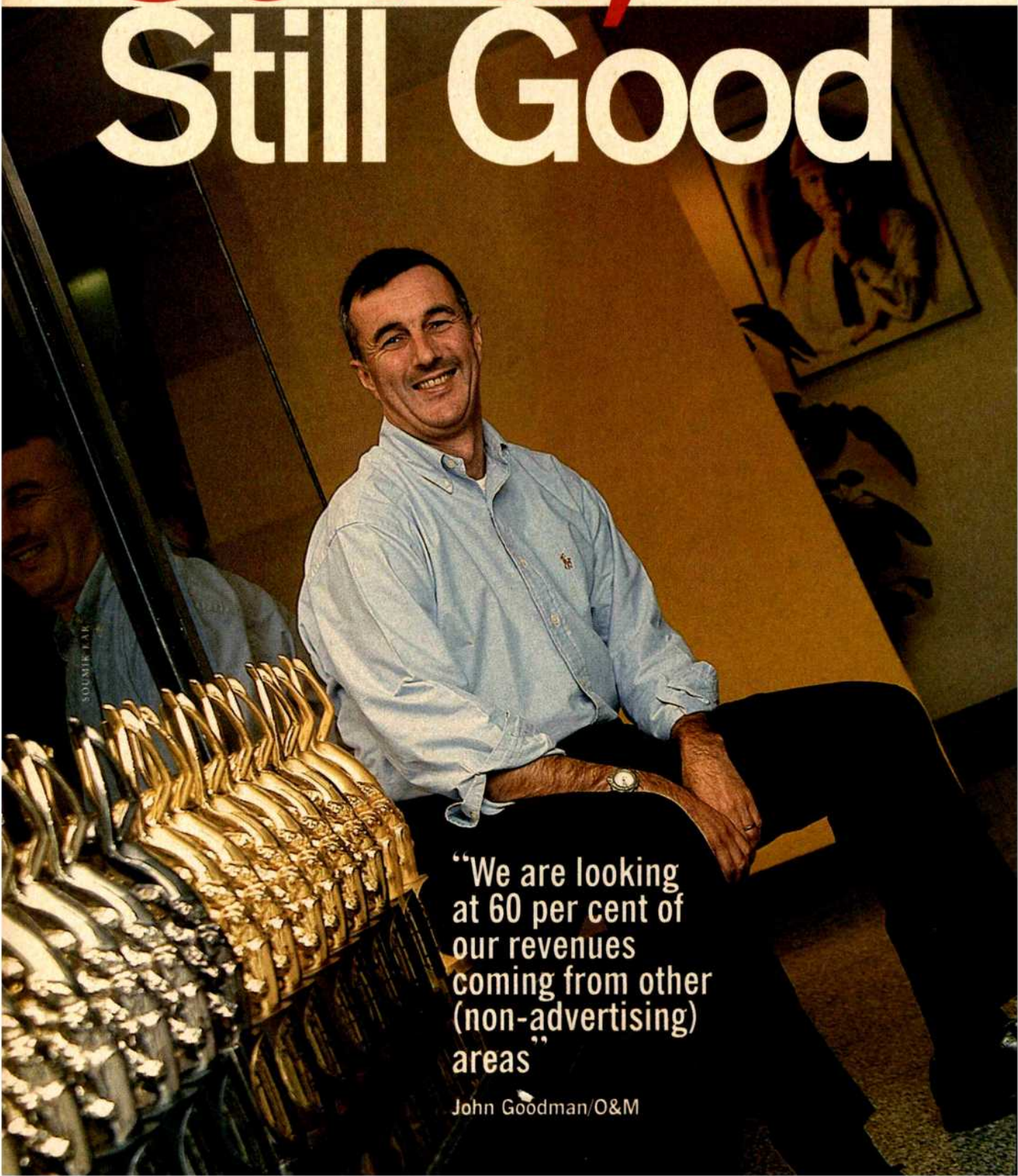
But why does he only go after companies that others have written off as basket cases? One obvious reason is price. Another, says Ruia, is his "attraction for strong brands, no matter how badly the companies are currently managed".

He intends to draw heavily on his Jessop experience at Dunlop. "We began with simple things—buildings were repaired and painted, plants were refurbished, workers were given uniforms and we ensured a cleaner, safer and more congenial work environment for everyone concerned," says Ruia. "And we successfully communicated to

all stakeholders our commitment to creating a professional work ethic that rewards employees. The results are there for all to see." This is the model he proposes to replicate in the tyre major. "Falcon Tyres is profitable. I'll focus mainly on Dunlop's Ambattur unit in Tamil Nadu and on Sahagunj. I'm hoping to revive the company within two-and-a-half years," says Ruia, who, incidentally, has quite a reputation in Kolkata as an art collector.

His collection includes works by Bengal School masters such as Nandalal Bose, Jamini Roy, Prakash Karmakar, Dipali Bhattacharya, Dhiraj Chowdhury and Ramananda Bandyopadhyay. And despite his exceptionally busy schedule these days, he still finds time to sometimes admire his collection and read up some more on the artists. During these little interludes, he also sometimes thinks of a little boy in a dusty town in UP who dared to dream big—and had the courage to live them out. Turning that dream into reality won't be easy. But regardless of what the future holds, Ruia must be given full marks for trying. ■

So Far, Still Good

A man with short dark hair, wearing a light blue button-down shirt and dark trousers, is sitting and smiling. He is positioned next to a large, dense rack of gold-colored hangers. In the background, another person is partially visible, and a framed picture hangs on the wall.

"We are looking
at 60 per cent of
our revenues
coming from other
(non-advertising)
areas"

John Goodman/O&M

It's been a great year for the advertising...oops the marketing and communications industry, but will the inevitable transformation pan out?

KRISHNA GOPALAN AND
ARCHNA SHUKLA

For 2005, we will have about 79 per cent of our revenues coming in from traditional sources with the rest coming from non-conventional avenues. By 2008, we are looking at a 50:50 split

Ashtosh Srivastava, CEO (South Asia), Group M

Whilst 20 per cent of our revenues come from emerging media, we see the spoils getting evenly shared between established and emerging media

Ravi Kiran, CEO (South Asia), Starcom Worldwide

Today, 60 per cent of our revenues come from advertising. In three years, we see that dropping to 40 per cent

Arvind Sharma, Chairman & CEO, Leo Burnett

CONSENSUS IS A TERM YOU WON'T EASILY find in the lexicon of the advertising industry, but when it comes to forecasting the future of this Rs 12,000 crore business (as of 2004), it isn't difficult to hear the head honchos speak in one voice. Almost in unison, you can hear them proclaiming: "Advertising, as we know it, is dying. Agencies as we knew them have to change, fast." Thus it's impossible to miss the twinkle in John Goodman's eyes when he says a 360° communications approach "is the way forward for the industry." Sitting in the Ogilvy & Mather (O&M) headquarters in Central Mumbai's Lower Parel (flatteringly dubbed India's Madison Avenue), the CEO (India and South Asia) explains that 30-35 per cent of his revenues this year will come from non-advertising sources. In five years, he adds, the proportion from non-advertising will exceed half. "We are looking at 60 per cent of our monies coming from other areas." If that sounds like hyperbole, consider this: In 2005, the star performer at O&M was OgilvyOne (which offers online and offline services like one-to-one marketing



2005 Wasn't Bad At All...

- The industry growth is estimated at 12 per cent
- Most mainline agencies are getting upwards of 20 per cent of their revenues from non-advertising sources
- An entertainment boom has resulted in many agencies registering an over 40 per cent growth in that segment
- Mobile communication has emerged as a significant revenue stream for agencies
- Direct marketing and Interactive are the buzzwords, reflected in the 21 per cent growth of OgilvyOne, O&M's fastest-growing division

...Yet Agencies Are Under Pressure Like Never Before

- Clients are demanding more accountability following the death of the commission
- Clients need to be convinced about the one-stop shop concept. There are large clients who still do not park all their services with one agency
- Consumer research and understanding has to become more effective, as consumer tastes and preferences have never been more unpredictable, as choices in the market abound
- Potential in many new areas is unclear; for instance, healthcare has several grey areas, with regard to ethical issues
- Turning their new divisions into profit-making undertakings will take its time

The Big Five And Their Bouquets

NPP

- **Creative:** O&M, JWT, Contract, Grey
- **Media services:** Maxus, Mindshare, ME:|A, Mediacom, Fulcrum
- **Sports and entertainment:** Broadmind
- **Micromarketing solutions:** Dialect
- **Digital Media planning and buying:** MOne
- **Proprietary tools and econometric modelling:** ATG
- **Proprietary consumer research and insights:** Insights
- **One-to-one communication:** OgilvyOne
- **OOH planning, buying:** Ogilvy Landscapes, PortLand

Lowe

- **Creative:** Lowe Lintas, SSC&B, Quadrant
- **Media service:** Initiative Media, Insight, Interactions, Intellect
- **Strategic design consultancy:** DCell
- **Health business solutions:** Lintas Healthcare
- **Event management:** Advent
- **Entertainment marketing:** Lintertainment
- **Outdoors:** Aaren Initiative

Mudra

- **Creative:** Mudra
- **Media Buying:** OMS
- **Outdoors:** PrimeSite
- **Healthcare and lifestyle:** Mudra Brand Therapist
- **Interactive:** Tribal DDB
- **Relationship Management:** RapCollins
- **Kids marketing and market initiation:** Kidstuff



Publicis Groupe

- **Creative:** Saatchi & Saatchi and Leo Burnett
- **Media services:** Starcom Mediavest Group; ZenithOptimedia
- **Entertainment & Embedded marketing:** Starcom Entertainment
- **Outdoors:** StarSight
- **Integrated marketing services:** Solutions
- **Activation and consumer excitement:** ACE
- **Sports and cause-enabled marketing:** Relay Worldwide
- **Digital and wireless marketing:** StarcomIP

Madison Comm.

- **Creative:** Madison Creative
- **Media Services:** Madison Media
- **Entertainment marketing:** MATES
- **Retail marketing:** MRP
- **Rural marketing:** Anugrah Madison



UNESH GOSWAMI

Starcom's Ravi Kiran: "Consumer outwards" approach

The Opportunity In New Segments

Sports marketing	300-350
Entertainment marketing	100-150
Retail	200-250
Interactive	150
Outdoors	800-900
Market activation	2,500-3,000

Figures in Rs crore

Note: Sports marketing excludes broadcast opportunities. Interactive is expected to grow to Rs 500 crore in the next two years

and integrated services across traditional and interactive channels like internet and mobile telephony), which grew 21 per cent.

If you're wondering why this seemingly laidback bunch of dream peddlers—which incidentally had a great year, with an estimated growth of 12 per cent for 2005—is in a revamp mode, the answer could well lie in these numbers that follow: The advertising business grew from around Rs 2,000 crore in 1995 to Rs 12,000 crore in 2004, translating into growth of a whopping 500 per cent over a decade. That may appear impressive in isolation, but if you juxtapose those figures against the actual sales generated on those spends—that's the purpose of advertising, right?—the picture isn't as pretty. Assuming a conservative advertising to sales ratio of 5 per cent, Rs 12,000 crore of ad spend should have generated additional sales of Rs 60,000 crore for marketers. Has that happened? "Well, the answer is for anybody to guess," says Sam Balsara, Chairman & Managing Director, Madison Communications. Balsara may not be willing to stick his fragile neck out, but industry experts will tell you that new bucks spent on advertising have not managed to generate any incremental sales in a large number of cases. Put simply, return on investments (RoI) in measured media (mainly print and television) has declined in the past one decade.

Read on to understand how: Total commercial airtime on television went up from 51 million

seconds five years ago to 214 million seconds in 2004. In the meanwhile, the average duration of ads came down from 20 seconds to 10-12 seconds, contributing to an increased clutter on TV. Alongside, the TRPs (television rating points) of commercials also plunged 18-20 per cent. Conclusion: Fewer people are watching the increasing number of ads, which again highlights the worry that Rols are indeed dwindling. Says Preet Bedi, President, Rediffusion DY&R: "The 30-second spot on TV is increasingly losing its spark." Adds Pranesh Misra, President & COO, Lowe: "The ability of advertising to deliver in the earlier days was much higher. This really meant that there was no need to look for an alternative. Today however, clients are looking at more avenues."

In such a scenario, agencies have little choice but to reposition themselves—as "full-fledged marketing and communication service entities." As Nirvik Singh, Grey Global Group's Chairman (South Asia) and President (South East Asia) puts it, there are two big reasons for agencies having to look at marketing services seriously: The demise of the 15 per cent commission coupled with fragmentation of media. "The needs are different today. Your consumer interacts with your brand several times a day and there is a need to manage the brand better," explains Singh. That's why buzzwords like above-the-line and below-the-line have become a refrain. Over the past couple of years, direct marketing (DM), customer relationship management (CRM), event management, as well as design and rural initiatives have become key areas of business, requiring high levels of skills and expertise. That is really what the 360° game is all about and the idea is to get as close to the consumer as possible.

The marketer, for his part, is as interested in effectiveness as in innovation. Says Hemant Sachdev, Chief Group Marketing Officer, Bharti Enterprises: "Media consumption habits of consumers have undergone a sea-change in the recent past. Today, a consumers' mindspace could be penetrated through var-

ious mediums and at various touch points, like in a retail outlet or at an ATM centre or a multiplex or a mobile phone or the internet." "The key today is all about measurability and impact which are hugely important. This is a significant change from the earlier days when it was driven by creativity and accountability was not defined," adds Ashutosh Srivastava, CEO (South Asia), Group M. He is now on the verge of announcing a major foray in the emerging Knowledge Process Outsourcing (KPO) space by joining hands with an existing player who will provide the technological expertise. Ashish Bhasin, Director, IMAG (Integrated Marketing Action Group), Lintas India, terms the non-conventional areas "through the line" and he tells you that IMAG's design consultancy dCell does the packaging out of India for "Good Morning" which is Unilever's soap in Egypt.

Clients, meantime, seem to be satisfied with the return on their investment via the 360° approach. FMCG giant Hindustan Lever (HLL), for one, sees it working. "We have some high quality work on the 360° front on brands like Surf Excel, Pond's, Lakme and Lifebuoy. All our brands now pursue a multi-media/360° approach in their communication. Our brief to all our agencies—creative as well as media—is to think 360° all the time," says HLL's General Manager (Media Services), Rahul Welde. That apart, the benefits of the approach, he adds, are that it engages consumers at multiple touch points and makes the communication

more compelling. HLL's work on Lifebuoy through the "Lifebuoy *Swasthya Chetna*" is today the single largest rural health and hygiene educational programme undertaken in India where the objective is to educate people on basic hygienic habits.

For the time being, every agency worth its pitch is in the midst of getting its revenue mix right. And there are few regrets. For, as Vikram Sakhuja, Managing Director, Mindshare, points out: "I guess if we had not repositioned ourselves, we would still be playing the 3 per cent game (the media buyer's share of the commission)." ■

Above The Line, Below The Line

How agencies are positioning themselves as integrated entities

- Publicis has acquired a 60 per cent stake in Solutions Marketing, an independent specialised marketing services outfit.
- After acquiring a majority stake in Kidstuff, a kids marketing and ground events company, Mudra will buy it out early next year
- WPP group's Broadmind will formally launch a branded entertainment entity early next year with Ravina Raj Kohli, former Star News President, heading it
- Mudra to launch a branded entertainment division, tentatively dubbed VideoTest, early next year; also set to launch a dedicated design consultancy
- Rediffusion to also set up a design consultancy segment
- The BPO/KPO space is also attracting several agencies, primarily with an eye on database management and customer profiling



Ravina Raj Kohli

Not Just Another IT Company

Having survived the telecom bust, Sasken is betting that its unique product-cum-services play will help position it as a major vendor for phone companies. Will it? VENKATESHA BABU

MEASURED BY THE typical IT industry yardstick of 40 per cent-plus annual growth in revenues and, in some cases, profits, Sasken Communication Technologies would have serious admission problem. In the 16 years that it has been around, the Bangalore-based firm has managed to grow revenues to just an embarrassing Rs 242 crore. In that time, most other IT services companies such as Infosys (1990 revenues: Rs 4.15 crore) have racked up more than a billion dollars (or Rs 4,500 crore) in topline. Neither does Sasken boast of fat profit margins like other players do. In fact, at 10 per cent, it is less than half of what the big guns pull in. Yet, last August,

when the company made its maiden IPO, investors demanded eight times the shares on offer. And just a couple of months before that, Canadian telecom giant Nortel and Finnish major Nokia had picked up shares in Sasken. While the company's stock is trading below the list price of Rs 400, it is still a third higher than the offer price of Rs 260. What is it about Sasken that its financials don't quite tell?

For one, that Sasken is not really 16 years old, but five, which is how long it has been since it switched focus from software products for telecom to a product-plus-services strategy for the same industry. Numbers also don't tell that Sasken's product business—long responsible for its slow growth—is at an inflexion point

and could break even by next year. And that its services business, which accounts for 85 per cent of its revenues, is gathering momentum. "We are poised for a hockey stick kind of growth, since most of our products will start yielding steady royalty incomes even as we grow exponentially," says Sasken's Chairman and Managing Director, Rajiv Mody, who set up the company (in a garage) in 1989 in US.

A Hybrid Play

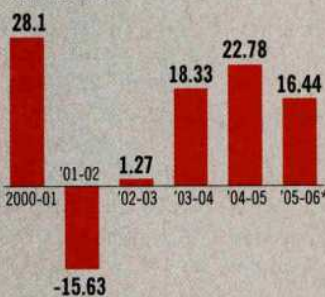
At present, a handful of large companies make up Sasken's customers in services. Those include network equipment vendors (think Nortel, Lucent, Motorola, Nokia, Ericsson), semiconductor companies (Texas Instruments, Intel), terminal equipment manufacturers (DBTel, BenQ,

Growth And Profits Have Come In Bursts...

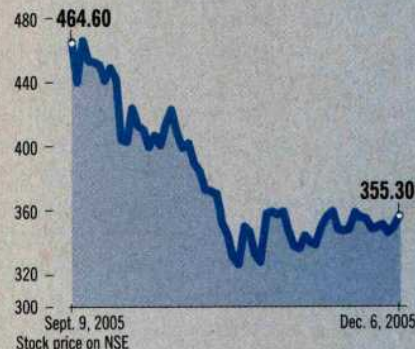
REVENUES



NET PROFITS



...And The Stock Has Slipped Too...





PHOTOGRAPHS BY DEEPAK G. PAWAR

Fast Forward: Rajiv Mody says Sasken is at an inflexion point, with revenues set to take off on the back of 3G telephony

CMCS), and partnerships with operating system suppliers such as Symbian and Ericsson. Then, its products and services are targeted at device makers (Nokia, Motorola, Samsung, Sony, Panasonic, LG, and Kyocera), and service providers such as Orange T-Mobile and Vodafone. "There are just 40-odd players who constitute our entire customer universe," points out

Prabhas Kumar, Sasken's COO.

Adding new customers will be important, but it is apparent that Sasken's growth will largely come from getting a bigger share of the spend by existing customers. How does the company plan to do that? By constantly increasing the portfolio of solutions and services, says Kumar. Currently, it does so by offering wireless software components, chip design and software services to semiconductor companies. It also provides testing and measurement companies software services. Apparently, the strategy going forward is to establish proximity centres across the globe to service customers more effectively. "We will have our centres up and running in Mexico and China by next quarter, and we intend to scale them up," reveals Kumar.

Telecom R&D services is another area where Sasken is working closely with customers such as Nortel and

Texas Instruments. The former, in fact, is the single-largest customer, accounting for more than a quarter of Sasken's revenues. The profit margins of 37 per cent in the services business are very attractive and, not surprisingly, make it the most lucrative end of its hybrid play. However, there's competition to reckon with. For instance, Wipro has the biggest outsourced R&D business (among Indian IT companies) as well as a telecom practice; hardware manufacturer Flextronics is also a competitor, thanks to its acquisition of Hughes Software Systems, which has a big telecom focus. A potential problem for Sasken is that while it has telecom expertise, it doesn't have the scale of its bigger competitors. "Increasingly in R&D, scale will become critical, since one needs to spread costs among as many customers as possible," says the head of telecom R&D practice in a rival firm.

Yet, Sasken Is Promising Because

- Its services business is not just growing but it's getting higher prices
- With 3G becoming popular, there will be a surge in demand for its products
- Some big names like Intel, Nortel, and Nokia have picked up strategic stakes
- The shift from licensing to royalty increases risks, but boosts pay-offs too

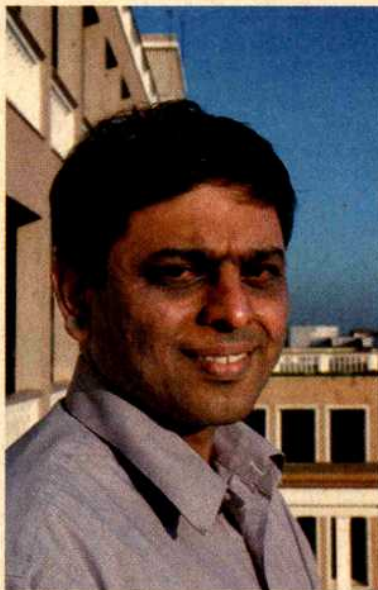
Mody, however, is confident that his services business will continue to grow despite stiff competition. In October last year, Sasken acquired Blue Broadband Technologies (now called Sasken Networks Engineering, a subsidiary) to offer turnkey telecom solutions in the networking and engineering space. Also, to ensure that the big customers stay with it, Sasken has sold them shares in itself. Nortel owns 11.7 per cent, Nokia 2.2 per cent, and Intel 10.6 per cent. "This way, customers who outsource R&D to us won't have to worry about Sasken suddenly getting acquired by someone else," explains Mody.

Dalal Street analysts seem to believe that such strategies are working. Priya Rohira, an IT analyst with Enam Securities, feels that Sasken's services deals—where average prices have gone up—will see considerable momentum. She points out that the company's services revenue in the second quarter grew 13.7 per cent over the previous sequential quarter in spite of lower employee utilisation due to fresh recruitment. "We also expect employee utilisation to go up to 75 per cent by next quarter," says Rohira.

The Product Promise

As mentioned earlier, what sets Sasken apart from other IT services firms is its hybrid strategy of services-plus-products. Under an umbrella called Strawberry, Sasken offers multimedia applications and codec engines (software that compress and decompress data). That means it provides things like an integrated audio and video player, imaging application and video camcorder, semiconductor and handset vendors can simply buy these products off the shelf and shove them into their devices.

Already, Sasken's products are used in 31 phone models, which so far have sold more than 8 million units. Among the companies that



G Venkatesh: Focus is on scaling up

have either licensed or paid royalty for use of Strawberry products are NEC, NTTDoCoMo, DBTel, Panasonic, and Telepaq. Says G. Venkatesh, Chief Strategy Officer and head of products division: "What we offer our customers are reduced time to market, commitment to invest and share risk, and support in integration, field trials and inter-operability tests."

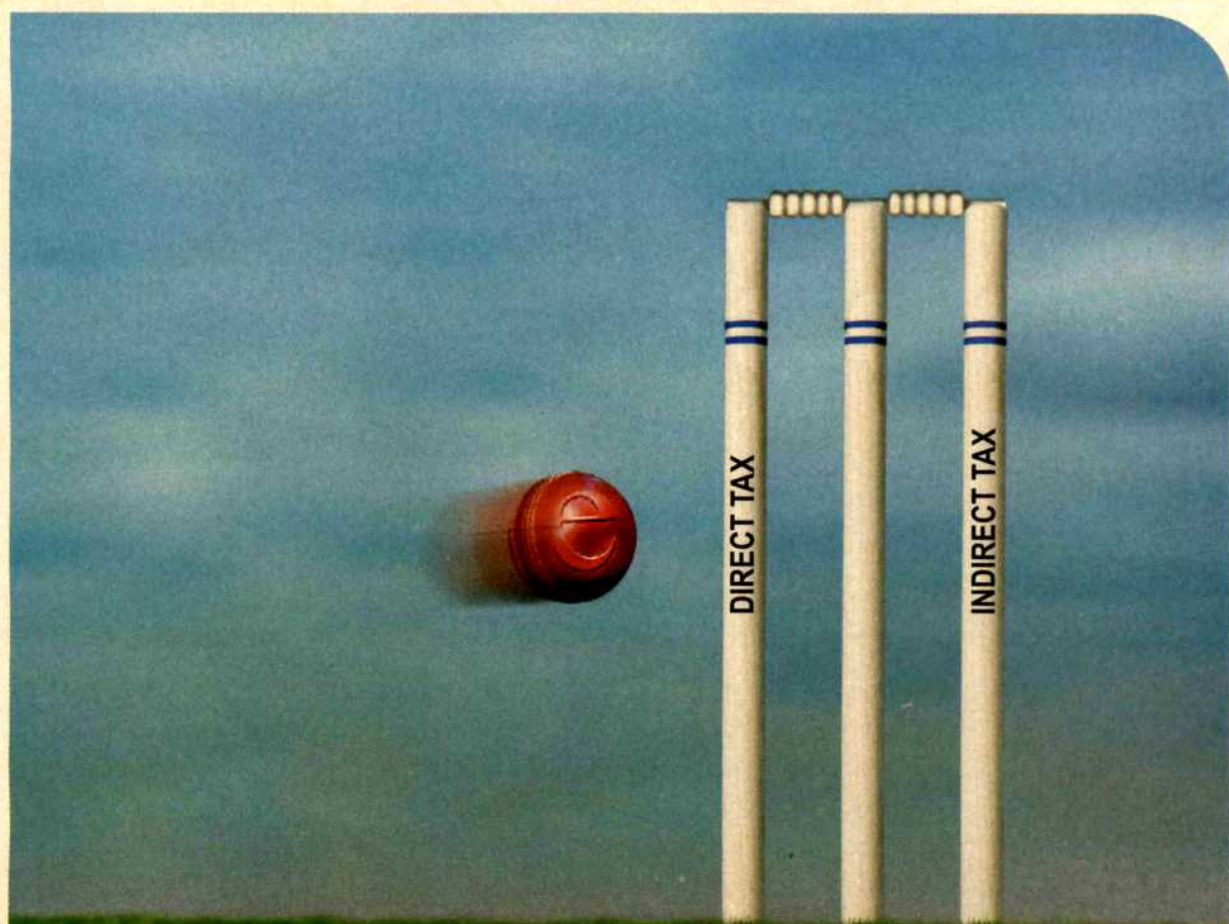
Mody feels that as 3G phones become more popular, Sasken will gain more traction in selling its product applications and codecs. Recently, the company moved away from a licensing to a royalty-based fee system to get a greater share of the explosive growth in telecom. "Sticking to a licensing model would have minimised our risks, but it would have minimised our pay-offs as well," explains Mody. What made Mody change tack was his experience with a Taiwanese player, MediaTek. Instead of striking a royalty-based deal (where the fee is on every unit shipped), Sasken went in for a one-time licensing fee. A bad move, considering that MediaTek went to sell 3 million phones that used on Sasken's technology.

Rohira of Enam says that of the

eight new semiconductor platform deals, five are royalty-based and expects the product division to break even next year. "They have shown good performance in the products business with year-on-year growth of more than 150 per cent," she notes. Given its new emphasis on royalty, Sasken has decided to enhance its IP portfolio. It currently boasts of seven US patents, but another 20 are at different stages of review. Also, Sasken plans to enter the domestic broadband market with its retail product, a modem.

A Mumbai-based analyst with a top securities firm, however, thinks Sasken faces considerable challenges ahead. He points out that disproportionately high investments were made by telcos over the last two years to make up for their lack of investments since 2000, when the telecom market collapsed. And that money has benefited companies like Sasken. He fears the pace of investment may not be sustained, besides which the bigger Indian IT companies are scaling up their telecom practice, which will make the going tough for Sasken. "No doubt Sasken is strongly positioned, but it will have to execute relentlessly if its hybrid model has to succeed," says the analyst.

Mody agrees that Sasken's challenge lies in scaling up and execution. But he says the worst is behind them. "We have survived the worst of times, and managed to attract and retain the right kind of talent, as evidenced by *Business Today's* own survey," says Mody, referring to the BT-Mercer study of the Best Companies to Work for in India (see issue dated November 20, 2005). He is right. Employees are solidly behind him as he strives to build a differentiated IT company. But to keep their faith, and that of his investors, Mody will have to get his product strategy to start paying off in a big way—soon. ■



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BREAKTHROUGH IDEAS DON'T ALWAYS LEAD TO BREAKTHROUGH GROWTH. WHY? IN THEIR NEW BOOK, TUCK SCHOOL'S VIJAY GOVINDARAJAN AND CHRIS TRIMBLE OFFER SOME ANSWERS.

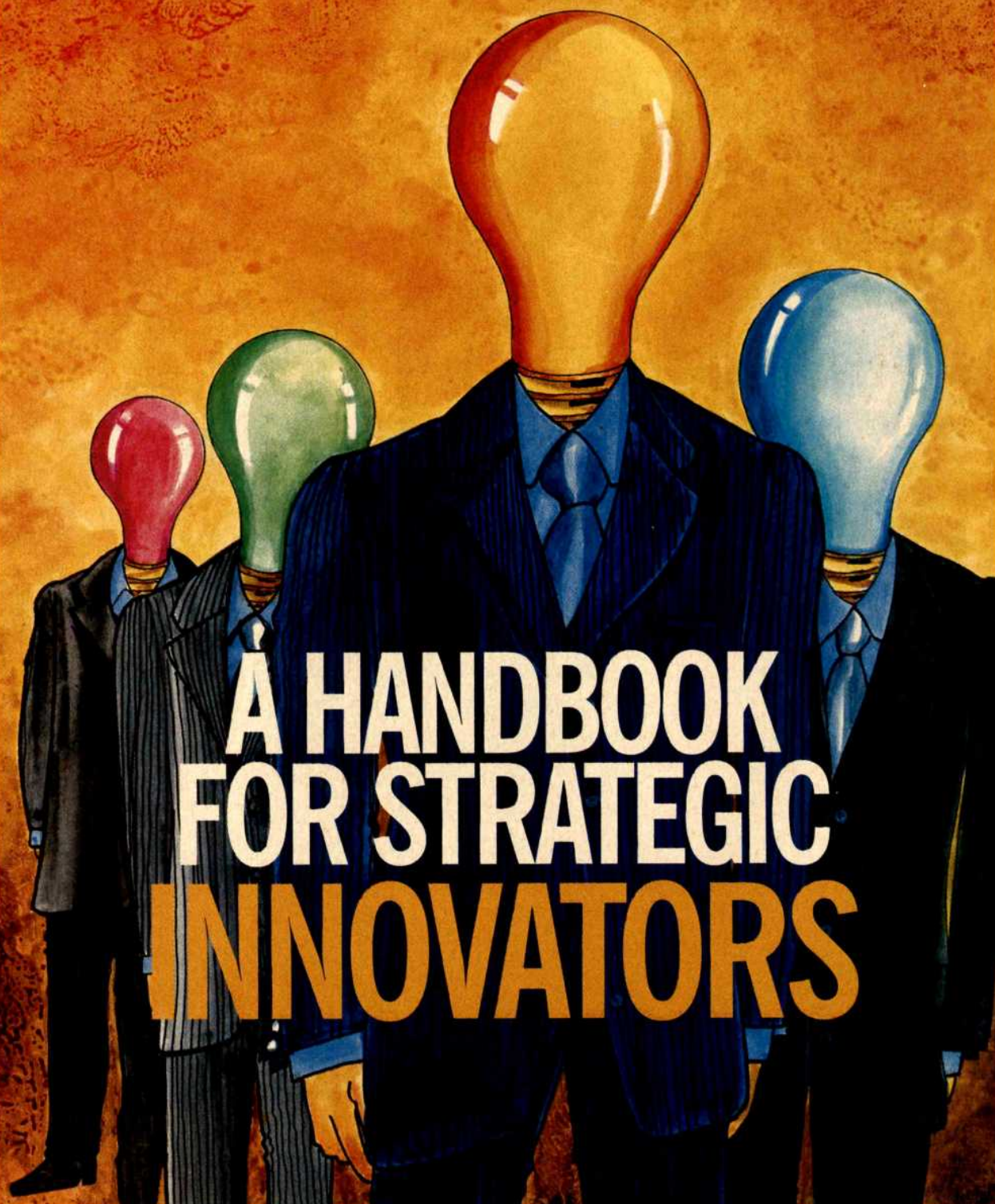


ILLUSTRATION BY RAMEN SARKAR

A HANDBOOK FOR STRATEGIC INNOVATORS

IT'S A DILEMMA THAT EVERY CEO FACES at some stage of his company's growth: How to maintain excellence in existing businesses while building those that will drive growth tomorrow. The obvious answer to the paradox is to innovate—to think up ways in which this delicate balance can be struck. But the problem for managers is that while there are dozens of books available on how to innovate, there are few that tell you how to go from idea to execution. In *10 Rules for Strategic Innovators*, Vijay Govindarajan, the Earl C. Daum 1924 professor of international business at the Tuck School of Business at Dartmouth, and his colleague and co-author Chris Trimble, do just that. Based on their study of innovative initiatives at 10 large corporations, the authors offer practical guidance for strategic innovators. Slated for launch in the US in mid-December, followed by India early next year, the book has already catapulted Govindarajan to the top 30 of the world's 50 most influential management thinkers as ranked by Suntop Media, a UK-based training and consulting firm. Here's an exclusive excerpt from the book's first chapter:



Why Strategic Innovators Need A Different Approach To Execution

Here is a sequence of events that is familiar to us from our research and may be familiar to you as well: a CEO announces that the strategic imperative for next year is breakthrough growth. Incremental growth from incremental initiatives is no longer enough. To continue to thrive, the company must do new things. It must break all the rules. It must redefine the industry...The company establishes a committee to review preliminary ideas for new growth opportunities. Dozens are submitted, and a handful are selected for further research. Business plans are written. One plan in particular looks most promising.

The CEO examines the chosen project from every angle. Many reasonable proposals are competing for the firm's capital, but none has the chance to rein-vigorate growth like this one. The CEO hires an outside expert and receives confirmation that the high-growth-potential business looks like a winner. Now it's a done deal. The CEO commits to the plan, assigns the best available general manager to lead the strategic experiment, and asks a member of the senior corporate staff to shepherd it. Then the CEO makes a big mistake. The CEO moves on to other matters. The new business, after all, is only a tiny fraction of a multibillion-dollar organisation.

How To Fail At Strategic Innovation

Asked to think about the challenges of innovation, most managers think first of the creative, brilliant, and inspired soul who sees the future in a different way—a rebel on a mission. This romance is deeply embedded in our business culture. The CEO's mistake lies in buying in to the romance. The error is in assuming that the company has already hurdled the most difficult barriers to innovation: finding a great idea and a great leader. In fact, the biggest challenges are still to come. Our research has shown that strategic experiments face their stiffest

resistance once they are showing signs of success, consuming more resources, and clashing with the organisation at multiple levels.

Ideas get you only so far. Consider companies that have struggled when their competitors have redefined the industry. Why did Xerox and Sears continue to struggle even after the genius behind Canon's personal copiers and Wal-Mart's new everyday-low-price discount retailing format was apparent to everyone; It's because the leaders of any groundbreaking new business must not only identify the big idea but also (1) attract funding, (2) learn quickly from success and failure, (3) rally people around a fuzzy view of the future, (4) reorganise to leverage the lessons learned, and (5) manage expectations of performance amid chaos.

Tendencies within established organisations present additional barriers. In addition to the five challenges just mentioned, the leader must also (1) protect funding for NewCo regardless of the performance of CoreCo, (2) establish new organisational norms and policies that make sense for NewCo, (3) overcome tensions between NewCo and CoreCo when those norms and policies conflict, (4) effect changes in the existing power structure required to support NewCo, (5) engage CoreCo employees in supporting NewCo, and (6) recruit talented CoreCo managers to work within NewCo. The degree of managerial difficulty is very high.

Simply put, strategic experiments are likely to fail if the company relies solely on the heroism of a hyper-talented individual, even one who has a great idea, is backed by a gifted senior executive champion, and faithfully follows 10 commandments of intrapreneurship. Instead, companies need to build organisations based on the 10 rules we develop in this book.

Creativity And Execution

Many companies have attempted to alter their organisational codes to accelerate innovation. But in

doing so, they have focussed mostly on creativity—generating ideas—and little on execution—converting ideas to results. We asked hundreds of executives in *Fortune* 500 companies to rate their companies' innovation skills on a scale of 1 to 10, where 1 represents minimal skill and 10 represents mastery. Survey participants overwhelmingly believe that their companies are far better at generating good ideas (giving this skill a score of at least 5 or 6) than they are at determining what to do with them (giving scores as low as 1 or 2).

We think of an organisation's capacity for innovation as the product of creativity and execution. We say "product" and not "sum," because if either creativity or execution is zero, then capacity for innovation is also zero. Some quick math: which is more effective—lifting your creativity score from 6 to 7, or doubling your execution score from 1 to 2? Nonetheless, most companies, when hoping to improve innovation, focus on generating ideas. Managers obsess over the front end of the innovation process. But the real leverage is in the back end—in execution.

The Mystery Of The Middle

If ideas are only a beginning and if organisations are more powerful than people, then what is the *organisational code* that enables a company to excel at turning breakthrough ideas into breakthrough growth?

Companies that focus on creativity often adopt an *anticode*: they break all the rules in the belief that creative organisations have little in common with disciplined, efficient ones. There is some validity to this notion.

To be efficient (code A)

- You stick to your knitting.
- You exploit what you know.
- You meet current customer needs.
- You plan.
- You demand accountability.
- You impose process and structure.

To be creative (code B)

- You think outside the box.
- You explore what you don't know.
- You anticipate future customer needs.
- You let things emerge.
- You allow freedom and flexibility.
- You avoid process and encourage unstructured interaction.

Code A encourages discipline. Code B encourages creativity. In most companies, code A is mainstream, and code B is counterculture. In our observations of breakthrough new businesses, clashes between the two were pervasive. Inevitably, CoreCo believes that code A delivers results and that NewCo must soon deliver results, too. NewCo, on the other hand, sees that it needed code B to get started and wants to stick with it. Both sides are passionate. The debate dominates meetings and defines the agenda.

Such struggles are unproductive. To see why, consider that every innovation story has a beginning, a middle, and an end. Great companies are masters of efficiency—code A. That helps, but efficiency is not needed until the *end* of the innovation process. Most companies also understand that creativity is in many

OVERVIEW OF THE THREE CHALLENGES

CHALLENGE GOAL

FORGET CoreCo has proven and stable answers to the questions of what its business is and how it wins. NewCo's answers are different. NewCo must forget CoreCo's success formula.

BORROW NewCo has access to resources within CoreCo that independent start-ups can only dream of: manufacturing capacity, expertise sales relationships, distribution channels, and much more. NewCo can gain critical competitive advantages if it can borrow these resources.

LEARN Whereas CoreCo's success formula is proven and stable, NewCo's is a guess. NewCo must learn. Specifically, NewCo must resolve the critical unknowns in its business plan and zero in on a working business model as quickly as possible.

METHOD

Conversational awareness of differences is not enough. Conversations are fleeting. To forget, the corporation must alter the established organisational design. NewCo must be distinct from CoreCo.

The senior management team must carefully select and closely supervise organisational links between NewCo and CoreCo. Careful: too much interaction between NewCo and CoreCo makes it extremely difficult to forget.

NewCo needs a much different planning process than CoreCo's—one that focuses on carefully resolving disparities between predictions and outcomes and emphasises learning over accountability. Note that if NewCo cannot forget CoreCo's success formula, it will struggle to learn its own.

ways the opposite of efficiency. That is also good, but creativity is the dominant priority only at the *beginning* of the innovation process.

In the middle, most companies are lost. They do not understand the code for turning breakthrough ideas into breakthrough growth. Because they are lost, they gnash their teeth over the stark contrasts of the two organisational codes that they understand: A and B, code and anticode. But during NewCo's awkward adolescence, neither creativity nor efficiency is the dominant priority. The need for creativity declines after you have a business plan, and focussing on efficiency is premature until the business is proven and stable.

So the question is, what is the nature of the journey from business plan to profitability? From creativity to efficiency? What kind of organisation can excel in the *middle* of the innovation process? Let's call it code X. We dedicate the rest of this book to revealing the 10 rules of code X that will help you turn mere concepts into breakthrough growth. First, *recognise* that code X is not simply a mix of A and B; code A may be black, and code B white, but code X is *not* gray.

Code X must address the three unique challenges that arise from the unnatural coexistence of a new and a mature business within the same corporation: a forgetting challenge, a borrowing challenge, and a learning challenge. NewCo must *forget* some of what made CoreCo successful. It must *borrow* some of CoreCo's assets—the greatest advantage NewCo has over independent start-ups. And it must be prepared to *learn* how to succeed in an uncertain market.

The Forgetting Challenge

Why must NewCo forget? Executives usually repeat actions that they believe have produced success. If success continues, then not only individual executives but also entire organisations shift from consciously repeating these actions to unconsciously accepting them as correct. Even when organisations face failure, it is a struggle for them to reassess these deeply entrenched assumptions. They become orthodoxy.

NewCo must forget three things. First, it must forget CoreCo's business definition. Strategy itself can become an orthodoxy, as answers to the basic questions that define a business—Who are our customers? What value do we provide? How do we deliver that value?—become second nature. NewCo must have the freedom to answer these questions differently and even to pursue options that may cannibalise CoreCo revenues. Second, NewCo must recognise that a different business model requires different competencies. CoreCo's areas of expertise will not matter as much to NewCo as will the new competencies it must develop. Third, NewCo must

INTERVIEW ■ VIJAY GOVINDARAJAN

"IDEATION IS NOT AN ISSUE, EXECUTION IS"

IN BETWEEN HIS CONSULTING ASSIGNMENTS and book promotion, Vijay Govindarajan, or VG, took time off to speak over the phone with BT's R. Sridharan. Excerpts:



There is a lot of management literature already available on innovation. How is your book different?

There are two big differences. The books that you already have on innovation are more about continuous improvement, and not breakthrough innovation. Even the latter sort tell you how to come up with breakthrough innovations, but they don't tell you how to go from innovation to execution. Our book is about how to execute on strategic ideas. Execution is critical because breakthroughs take place in entrepreneurial space. How to take fuzzy business models—which is what all strategic ideas are in the beginning—and turn them into growth engines. I am not saying that other kinds of innovation are not important. It's just that strategic innovation is more important for a company from a long-term perspective.

What are the typical problems large companies run into when managing strategic innovation?

Large companies typically have a strong focus on accountability. Their internal performance system measures and rewards continuing businesses, whereas strategic innovation is about managing uncertainty. Results are rarely immediate. The second problem is the silo mentality. The departments and executives have a strong sense of individuality, there is no collaboration. But to successfully execute on strategic ideas, the new division (called NewCo in the book) must borrow resources from the parent (called CoreCo). This is what we call the borrowing challenge—gaining access to concrete value, but forgetting (losing) assumptions and biases.

Innovation is often romanticised as skunkworks.

To me that is bologna. We need to move away from creativity to execution. Ideation is not an issue, execution is.

How come your book doesn't look at companies like Nokia or Apple that have literally reinvented themselves?

In the case of Nokia, there was no threat of cannibalisation it faced when it went from paper to telecommunication. Similar is the case with Apple. Its iPod hasn't made obsolete its PCs. But consider the risk that the New York Times (one of the case studies in the book) ran when it decided to set up an Internet division: Putting the newspaper online could have killed the offline product. And that's what the challenge for most large corporations is: How to create new businesses while not losing focus on the existing ones.

Finally, why 10 rules, not 9 or 11?

10 is a nice round number.

forget CoreCo's focus on *exploitation* of a proven business model and shift to *exploration* of new possibilities.

For example, when GM created OnStar—its integrated automobile information, safety, and communications system—it had to forget all three. It had to adapt to a new business model; the communications services market demanded a much different value proposition and a much shorter product development process than did automaking. It had to build a new

assets. That is, forgetting is about what goes on in your head. Borrowing is gaining access to resources with concrete value.

The Learning Challenge

In addition to forgetting and borrowing, NewCo must learn. The notion of organisational learning is a broad one, but in the context of strategic innovation its meaning is specific.



NEWCO CAN COMPETE AGAINST START-UPS ONLY BY BORROWING CORECO'S ASSETS

competency in information technology. And it had to systematically identify and eliminate unknowns rather than exploit a proven business.

The Borrowing Challenge

Consider the advantages that independent start-ups have over existing corporations. They can offer the possibility of tremendous wealth to the management team. They can move quickly, unhindered by the bureaucratic decision-making processes that sometimes debilitate large corporations. They also benefit from the advice of professional investors who understand the needs of new ventures. Further, they have no entrenched mindsets to overcome. Independent start-ups have nothing to forget. NewCo can compete effectively against start-ups only by *borrowing* CoreCo's assets: existing customer relationships, distribution channels, supply networks, brands, credibility, manufacturing capacity...resources that start-up ventures can only dream of.

In every strategic experiment we studied, part of the justification for making a risky investment was that there was some unique asset or capability that CoreCo could offer NewCo. Corning could help Corning Microarray Technologies (CMT) by sharing its existing facilities and its expertise in manufacturing processes that required precise control of tiny quantities of fluids. The New York Times Company offered New York Times Digital (NYTD), its Internet division, a well-respected brand in addition to the journalistic content it produced for the newspaper. Analog Devices lent its expertise in semiconductor manufacturing methods to its strategic experiment to commercialise a new technology for automotive crash sensors. In each case, NewCo had little chance if it failed to borrow.

Note that there is an important distinction between forgetting and borrowing. NewCo must forget *assumptions*, *mindsets*, and *biases*. NewCo must borrow

One learning curve matters more than any other for NewCo: improvement in its predictions of its business performance.

In learning to predict performance, NewCo proves or disproves theories about what can work. Initial theories are usually wrong. For example, Corning anticipated that mastering the steps in specialty glass manufacturing would be the most challenging part of manufacturing DNA microarrays, but it found much bigger challenges elsewhere. New York Times Digital initially expected to build a separate and independent newsroom for the new online medium but eventually found it unnecessary. Analog Devices anticipated that its new semiconductor technology would lead to the development of new markets in addition to automotive crash sensors, but only the automotive market proved economically viable. The faster these kinds of uncertainties are resolved, the sooner NewCo can put itself on a clear path to success.

Note that a failure to forget cripples the learning effort. If NewCo cannot let go of CoreCo's success formula, it cannot discover its own.

Organisational DNA And The Three Challenges

In analysing each strategic experiment that we researched, we focussed on the ability of NewCo to overcome the forgetting, borrowing, and learning challenges. Ultimate success for NewCo also depends on several other factors, but most of them are not controllable. For example, because strategy formulation in any nascent market involves a great deal of guesswork, luck plays a role. Among the controllable factors, however, we believe that organisational DNA is by far the most important.

When initiating a strategic experiment, executives must make difficult choices to give NewCo the DNA it needs. Because of everything that must be forgotten,

NewCo's DNA must be very different from CoreCo's. For example, NewCo may need external hires to build new areas of expertise, whereas CoreCo emphasises internal promotion. NewCo may use a flat organisational structure and encourage unstructured interaction, whereas CoreCo prefers more hierarchy and formal reporting. NewCo may emphasise experimenting and learning, while CoreCo demands accountability to plans. NewCo may encourage risk taking, whereas CoreCo seeks a more conservative culture.

IN CREATING NEWCO, CEOs MUST BE PREPARED TO MAKE UNPOPULAR CHOICES

But giving NewCo a unique DNA can lead to resistance. Corporate executives who have played by the rules to work their way up a career ladder in CoreCo will resent changes in routines for such things as establishing organisational hierarchy, assigning staff, granting promotions, allocating resources, providing incentive compensation, or evaluating business performance. Therefore, in creating NewCo, CEOs must be prepared to make unpopular choices, and they must avoid making the choices that are easiest and most convenient.

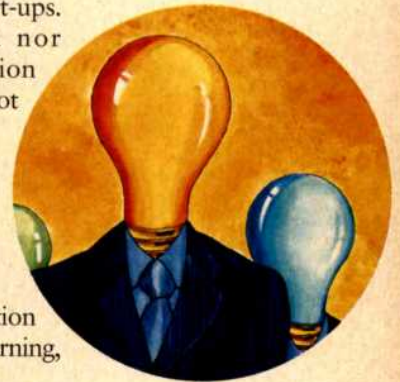
CEOs who aren't willing to make difficult choices will simply replicate CoreCo's DNA for NewCo. This makes it hard for NewCo to surmount the forgetting challenge, because it remains immersed in CoreCo's assumptions, values, and decision biases. It also makes it difficult to learn, because CoreCo's culture and management systems are designed to exploit a proven business and not to experiment with a new one. When NewCo's DNA is the same as CoreCo's, NewCo is effective only at borrowing. It overcomes only one of the three challenges.

Other CEOs may be willing to create a unique DNA for NewCo but become preoccupied with the conflicts and tensions that result at points of interaction between NewCo and CoreCo. For example, CoreCo understands existing customers, but NewCo must be attentive to emerging customers. CoreCo is focussed on efficiency, often through rigorous definition of processes, while NewCo must remain flexible and emphasise learning. And CoreCo is loath to prioritise the long-term needs of tiny NewCo over the immediate needs of its own, much bigger business. Not surprisingly, many of the executives we spoke to cited points of interaction between NewCo and CoreCo as critical trouble spots.

These conflicts lead to an urge to isolate NewCo from CoreCo, a step that some researchers have

suggested. But we maintain that this is an overreaction to legitimate concerns. An isolated NewCo may succeed at forgetting and learning but will not be able to borrow from CoreCo, because borrowing requires interaction. As mentioned earlier, an ability to borrow existing assets is the most important advantage that corporations have over independent start-ups.

Neither replication nor isolation works. Replication facilitates borrowing, but not



forgetting or learning. Isolation may allow forgetting and learning, but not borrowing.

Note that for other kinds of innovation initiatives (and not strategic experiments), replication or isolation can work. For example, a new product launch that does not alter the business model may succeed through replication; it need not forget. An investment in a new business that is unrelated to the core business may succeed through isolation; it need not borrow. But a strategic experiment must both forget and borrow.

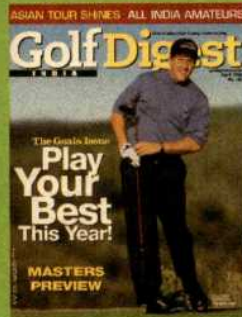
Indeed, strategic innovation demands a design that overcomes all three challenges. NewCo can forget only by departing from CoreCo's organisational norms. NewCo must have its own DNA. Forgetting, however, is about changing behavior. It is easy for NewCo to talk like NewCo but act like CoreCo. As you will see, there are powerful sources of organisational memory at work. For NewCo to borrow, CEOs must establish a limited number of links between CoreCo and NewCo. They must then foster favorable conditions for cooperation between the two entities and carefully monitor their interactions.

Finally, for NewCo to learn, it needs unconventional planning systems tailored to the dynamic environment faced by strategic experiments. (It) must value learning over accountability, and it must ensure that disparities between predictions and outcomes are analysed quickly and dispassionately. If NewCo struggles to forget, it will inevitably struggle to learn. It cannot find its own success formula if it remains bound to CoreCo's. ■

As part of its Knowledge Management Forum, Business Today is bringing Vijay Govindarajan to India for a two-city seminar on "Innovative Strategies for Creating the Future: From Idea to Execution". The first seminar will be held in Delhi on January 23, followed by Mumbai on January 25. For more details, email us at bt@intoday.com.

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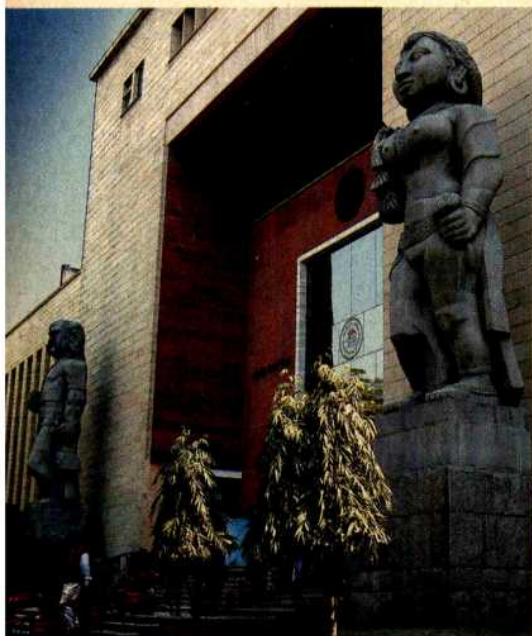
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Testing The Waters

The Reserve Bank of India is making it easier for resident Indians to access foreign exchange. Is this the first step towards full convertibility?



RBI: Loosening its purse strings

DOLLAR DREAMS

What the RBI plans to do.

- Expand network of forex dealers
- Only non-trade related transactions to be allowed
- Ceiling limit stays at \$25,000 per calendar year for business travel and \$30,000 per academic year for studies
- Simpler procedures for customers
- New norms to check money laundering

THE GOVERNMENT'S POLICY ON current account convertibility is based on a most politically incorrect premise. Officially, the rupee is not fully convertible. But in actual practice, the restrictions apply mostly to Indian companies and citizens. Foreign investors are pretty much free to bring in and repatriate as much money as they wish without too many hassles.

But now, the Reserve Bank of India (RBI) is making it easier for Indian nationals to access foreign exchange (forex) legally. Its new 'licensing policy for authorised persons' envisages expanding the network of forex dealers around the country.

These new dealers, called Restricted Authorised Dealers, can however, sell foreign currencies only for non-trade related current account transactions. They will convert one currency into another on the basis of a simple declaration from an applicant or on the production of an appropriate document like a passport, medical certificates, admission proof, etc.

"Increased competition among dealers will lead to better services for customers," notes the RBI

appointed committee headed by H. Bhattacharya, Chief General Manager (Department of External Investments and Operations). The forex ceiling for individuals, however, remains unchanged at \$25,000 per calendar year for business travel and \$30,000 per academic year for studies abroad. Customers can buy forex for travel and tourism, medical reasons, education, employment, and film shooting. In order to check any unauthorised activities like money laundering, the RBI has also put in place strict Know Your Client (KYC) norms. "This will clean up the market and check money laundering and *havala* transactions," says J. Moses Harding, Executive Vice President (Treasury), IndusInd Bank.

Experts feel the RBI may ease, and even scrap, the ceiling on the amount of forex that an individual can legally carry abroad after studying the impact of this scheme. With a forex kitty of more than \$140 billion (Rs 6,30,000 crore), it is certainly in a position to loosen its purse strings. The economic logic apart, it will also be the most politically correct thing to do.

ANAND ADHIKARI

More Harassment For Tax Payers

The I-T department is tracking the purchases of expensive watches and modular kitchens.

ON NOVEMBER 29, OVER 1,500 income tax officials swooped down on hundreds of importers and distributors of luxury products like watches, pens and modular kitchens across the country. Their objective: to

gather a list of customers who could be using unaccounted money to purchase these items. In the last Budget, the government had removed mobile phones from its one-by-six scheme and replaced it with "the payment of electricity

bills" of over Rs 50,000 a year. The groping hand of the state, it seemed, was being put on a leash. But now, it appears as if the finance ministry is reversing that philosophy.

Says Sharad Chandra, Director (Tax Policy & Legislation), Central



GIREESH G.V.

FM Chidambaram: Heavy handed

Board of Direct Taxes, Revenue Department, Finance Ministry, Government of India: "The tax authorities have powers to call for information from different sources, including the assessee. The Annual Information Report introduced a year ago requires some institutions and banks to maintain data on specific transactions. The idea is to track individuals who may not be reporting their income correctly." According to a finance ministry notification, taxmen are allowed to look closely at people buying property over Rs 30 lakh or making credit card purchases of over Rs 2 lakh a year. Mechanisms, therefore, exist for tracking high value transactions and errant tax payers.

Ajay Kumar, Executive Director, PricewaterhouseCoopers, is unimpressed. "How can you go to a dealer to find out about buyers of plasma TVs? They don't have the PAN number of the individual buyers or, in many cases, even the addresses." How indeed! Meanwhile, if you are an assessee with a taste for the fine things of life, be prepared for some heavy-duty harassment. ■

KUMARKAUSHALAM

"Micro-finance Isn't Charity"

PRAFUL PATEL, VICE PRESIDENT (SOUTH ASIA) OF THE WORLD BANK, spoke to Business Today's Arnab Mitra on how micro-finance can help lift millions of Indians out of poverty. Excerpts:



KALYAN CHAKRABORTY

What is micro-finance?

Micro-finance is an institutionalised mechanism of delivering very small loans to needy people or groups of people. Most banks, for example, don't give loans of less than Rs 10,000. But institutions dealing in micro-finance make advances ranging from Rs 100 to Rs 50,000. Bangladesh's Grameen Bank has been able to lift millions of people in that

country out of poverty. In India, organisations like the Self Employed Women's Association (SEWA) in Gujarat and schemes like Indira Gandhi Pratham have also shown the difference micro-finance can make to the lives of poor people.

How does it work?

About 87 per cent of India's poor don't have any access to credit. Our target is to bring this down to 50 per cent within the next decade. But no bank or institution wants to get into this segment. So, we work through NGOs like SEWA and a few others to reach out to the needy. At the grassroots level, these NGOs form 10-member self-help groups that monitor the administration of loans to its members. The default rate: zero per cent. The World Bank is trying to rope in regular banking institutions into this field. I understand that ICICI Bank is working on a \$10-million (Rs 45-crore) deal to securitise micro-loans.

How can the reach of micro-finance be expanded?

The World Bank has granted loans of close to \$1 billion (Rs 4,500 crore) at 0.75 per cent interest to extend the reach of micro-finance to the heart of rural India. But we find that documentation of land ownership is in a very poor shape. This makes it difficult for the poor to use their assets as collateral. Also, caps or ceilings on interest rates don't work. The government shouldn't just assume that the removal of the interest rate ceiling will automatically lead to micro-credit institutions charging usurious rates. Micro-finance is different from charity. The market has to find its own rate if the sector is to become financially viable. These are issues the government has to address and find answers to.

Have you set any goals?

About 380 million Indians now live on less than \$1 (Rs 45) a day. The goal is to cut this figure by half to 190 million by 2015. Micro-finance will be the single most important instrument for achieving this.

Spoilt For Choice

With as many as seven airlines operating on some sectors, there are terrific airline deals out there. But how do you get the best?

KUSHAN MITRA



VIVAN MEHRA

VARUN BEDI, 24, MUMBAI-based graphic designer, is one person who's going to ring in the new year with extra verve. He plans to party in Goa and he's managed to grab the cheapest air ticket going—a Rs 442 (only in taxes, the tickets are free) Mumbai-Goa return on Go Air. That's less than what he would have paid for a one-way ticket on an overnight bus to the beach city.

Airfares are in free fall like never before. Almost every two months, a new airline is launched, some no-frill options like Air Deccan and some

premium like Paramount, but the competition has sent fares parachuting down to practically sea level (see *Soft Landings*). And travellers like Bedi have learnt to make the most of it.

Although Bedi's Goa ticket was a stroke of luck—he got the early bird bonus on the new airline—some planning and active shopping can get you surprising deals. Of course, the cheapest tickets are available only if you book three months in advance, but even if you don't get a Re 1 ticket or a Rs 500 one, there are still some great fares out there.

First tip, use the internet. You escape the Rs 100-250 transaction

fee that you have to otherwise pay when booking on the phone, or at petrol pumps or cyber cafés. The other advantage: you can open multiple windows of the airline websites on your PC and directly compare prices and flights. Or try travel websites like www.makemytrip.com, which do the comparing for you. Of course, both the net and phone options are only open to people with credit cards, although Air Deccan allows ICICI Bank debit cards. Booking through the net is also pointless unless you have access to a printer to print out the ticket.

The second trick is to be flexible.

SOFT LANDINGS

SECTOR*	Air Deccan	Air Sahara	Go Air	Indian Airlines	Jet Airways	Kingfisher	SpiceJet	Rajdhani (2AC)
DELHI-MUMBAI	2,429	3,667	n.f.	3,707	2,371+	3,739	2,249	2,230
BANGALORE-DELHI	3,774	3,890	n.f.	3,707	2,802+	4,729	3,649	3,085
MUMBAI-GOA	1,774	2,178	999	1,695	2,479	2,199	1,449	1,242^

*Fares are in Rs as of Dec. 5, 2005, for travel on Jan. 31, 2006, and do not include the surcharge of Rs 221

n.f.: No flight on this route

^ Konkan-Kanya Express.

+night flight

Source: airline websites; makemytrip.com

If you're determined to travel cheap, night flights between metros are great savers. For example, you can get a Delhi-Mumbai Air India flight, even at short notice, for Rs 2,500 (departure: 4.00 a.m.), while a Jet night flight could come for Rs 2,370 (departure: 10.00 p.m.).

Peak hours and weekends push fares up, so try juggling timings. Also, fares shoot up dramatically during festivals such as Diwali or New Year's. In fact, airlines typically drop the number of tickets available in their low-fare buckets during such times.

Important, if you book in advance, you might actually find that fares on full-service carriers are cheaper than on low-cost fliers. For example, if you book an Air Deccan ticket now between Mumbai and Kolkata for end-December, the fares

Airfares are in free fall with a new airline being launched every two months

will be around Rs 6,500, but if you had booked it three weeks earlier on Indian Airlines or Jet Airways, you could have bagged a seat for Rs 5,000.

Naturally, be prepared for cramped legroom on a low-cost carrier. Plus, airlines like Air Deccan allow only 15 kg per passenger. And you can forget about in-flight meals or even free water. You have to pay through your nose for a (cold) *samosa* or a (dry) sandwich. On the other hand, Kingfisher, marketing itself as a 'value carrier', offers meals and in-flight entertainment. And the higher fare on, say, a Jet Airways flight means you can not only buy tickets online, you can also check in online into the seat of your choice.

You choose—between luxury and low fares. But the important thing is that you now get to make this choice at all.

SMARTBYTES

CRISIL Ratings Help You Rank Mutual Funds

AT A TIME WHEN INVESTORS HAVE RENEWED INTEREST in mutual funds, CRISIL's first rating of a fund house (HDFC MF: Level 1) acquires significance. Instead of quantitative or specific scheme evaluation, CRISIL is looking at quality. Says Roopa Kudva, ED and Chief Rating Officer: "We rate funds on management, corporate governance, distribution practices, etc." The ratings (Level 1, best, to Level 5) are investor guides, but unfortunately aren't yet mandatory in India. Significantly, of the three funds that have applied to CRISIL so far, only one has disclosed its ranking. Says Sanjay Prakash, CEO, HSBC AMC: "In developed markets, if a fund isn't rated, chances are investors won't enter the fund." Till they do become compulsory, let's hope competition forces funds to get rated voluntarily.



Crisil's Kudva: Good move

MAHESH NAYAK

Learn To Use The Law

REMEMBER FEELING FRUSTRATED WHEN THE CINEMA HALL VENDOR CHARGED YOU Rs 20 for a Rs 10 Pepsi bottle? It's totally illegal but redress is too complicated, so you let it go. Well, one outraged consumer didn't. He took Nirula's, the Delhi fast-food chain, to consumer court for charging Rs 35 for a bottle of Coke. The Delhi State Consumer Commission ruled that charging more than the printed MRP was illegal and fined Nirulas. Remember, there's a Department of Legal Metrology (DLM) in all states, whose task is to ensure adherence to MRP. Next time your neighbourhood ice-cream vendor charges extra, inform DLM. Failing which, of course, there are always the consumer courts.

VAISHNA ROY

Pizza Or Toppings?



Renewed interest: Back in recurring

and ATM card plus IT processing and filing on its RD accounts. The interest rate, however, on these new-look RDs has been slashed to 5 per cent from the regular 7-8 per cent. Why would you choose to lose a cool 2 per cent interest in return for life cover and an ATM card? Remember, RDs make most sense only because of their high risk-free returns in an era where the concept of assured returns is dying out.

NITYA VARADARAJAN

TEXTILES

Material Gains

With exports spinning good profits, textile sector companies are looking good.

AFTER THE PHASING OUT OF THE QUOTA REGIME, India's potential in the textile and apparel sector is comparable with China's. And the magic word is exports. In January-May 2005, exports to the US and the EU grew 37 per cent and 16 per cent, respectively, over the previous year, while a smart product mix saw unit value realisations in the US market gaining 5.7 per cent Y-O-Y. Says SSKI equity analyst Chirag Shah: "Growth is likely to be sustainable, considering India's continued gains in cotton yields, up 45 per cent in the past three years."

Consider categories like home textiles (exports up 325 per cent) and bed linen (up 681 per cent)—they make the government's target of \$50 billion (Rs 2,25,000 crore) in exports by 2010 look very reachable. Vijay Mathur, Secretary, Apparel Export Promotion Council, expects apparel exports to touch \$6.9 billion (Rs 31,050 crore) in 2005-06. And, according to an SSKI study, India commands 25 per cent of the world cotton yarn market but only 5 per cent of processed fabric exports. The potential here is thus huge.

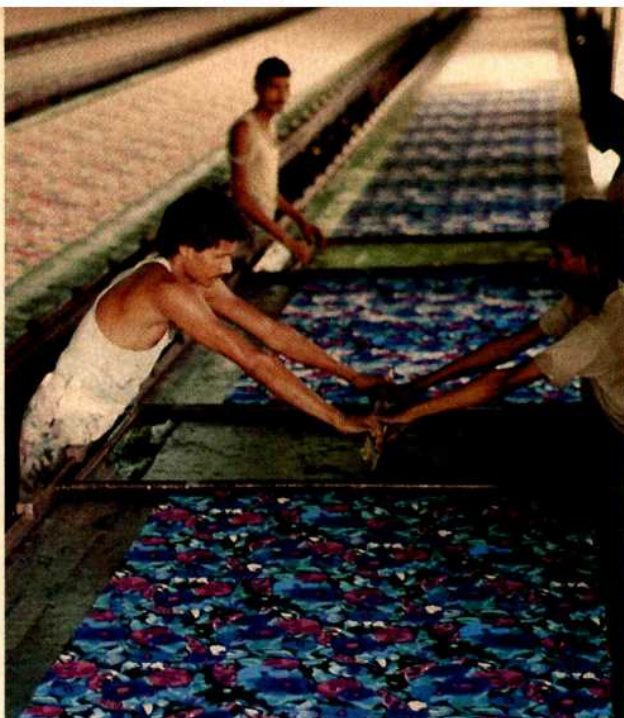
Companies in the sector are cashing in. Alok Industries is shifting focus to the lucrative home textiles segment and Arvind Mills is increasing its product diversification. Both have posted PAT hikes of 24 per cent and 85 per cent, respectively, for the quarter ended September 2005.

But pick stocks carefully, given the consolidation trends. Analysts are putting their money on Mahavir Spinning, Welspun India, Gokaldas Exports and Raymond—seen as building competitive capabilities to seize emerging opportunities.

Gokaldas Exports has seen net sales jump 38 per cent and PAT rise 59 per cent, while Raymond's worsted fabric division, accounting for half its revenues, will see growth from new products, capacity additions and foreign collaboration. Welspun has announced a Rs 650-crore expansion plan, and Mahavir Spinning (Vardhman Group) is expanding rapidly. Says S.P. Oswal, Chairman, Vardhman Group: "We are investing in a big way to address growing fabric requirements of garment exporters."

With total capex investments of over \$1 billion (Rs 4,500 crore) planned over the next three-four years, the sector looks solid. Consider a mid-to long-term exposure.

KUMARKAUSHALAM



VIVAN MEHRA

Spinning A New Yarn

RAYMOND

	July-Sept. '05	% change ^
Net sales	349.66	3.22
PAT	36.83	14.95
Paid-up capital	61.38	No Change
P-E multiple*	23.15	n.a.
EPS	16.88	-3.21



WELSPUN INDIA

	July-Sept. '05	% change ^
Net sales	149.92	43.81
PAT	12.65	14.58
Paid-up capital	73.09	29.41
P-E multiple*	20.61	n.a.
EPS	6.09	8.55



MAHAVIR SPINNING

	July-Sept. '05	% change ^
Net sales	459.6	40.9
PAT	39.91	131
Paid-up capital	38.51	49.55
P-E multiple*	11.68	n.a.
EPS	10.36	-22.57



Figures are in Rs crore except EPS, which is in Rs, and the P-E multiple
 *P-E multiple as on Sept. 30, 2005 n.a.: not applicable
 ^ Change is from the previous year's corresponding period
 Source: CMIE

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Woman Alone

Getting a flat on rent might be a struggle, but single women find that loans are a breeze.

IN 1997, ABOUT A YEAR after her husband's death, Mumbai-based Renu Kannan, 45, approached a bank for a Rs 2 lakh home loan. Her application was turned down by several banks, including HDFC and Bank of India. Finally, after much persuasion and a little help from a branch manager, the south-based Corporation Bank sanctioned her the loan.

Today, the mother of two is a successful beautician and looking for a fresh loan to move out of the suburbs and closer to the heart of the city. She will find it vastly more simple to get a loan now because lending institutions today are much more ready to mingle with single women. Most single women have harrowing tales to tell of their flat-hunting experiences, but thankfully, when it comes to home and other loans, the equation seems to have tilted more in their favour.

In the last few years, women have entered the work force like never before and have large disposable incomes. Research shows that single women now constitute a major chunk of car, home and consumer durable buyers. Quick to seize the opportunity, banks are bringing out specialised products to cater to this new customer. Equally important, women are perceived as less likely to default on loan repayments, making them even more attractive to bankers.

The process of borrowing, of course, is not completely easy yet. For banks, guarantor and security continue to be big issues when lending to a single woman—whether it be a personal loan, car loan or a home loan. However, more and more banks are coming up with woman-friendly policies and interest rates. UTI Bank, Bank of Maharashtra, Vijaya Bank, Bank of Baroda, and United Bank of India (UBI)—the list of banks offering special rates to women is growing.

UBI, for instance, gives a 0.25 per cent concession



Loan ranger: Banks now offer special rates to women

LOAN AND BEHOLD

Bank	Interest Rate (%)*	
	Women	General
UTI Bank	11.5	11.75
Bank of Baroda	11.5	12
Bank of Maharashtra	12.25	13.25
Canara Bank	11.50	12.00
Vijaya Bank	10.50	11.50

* Personal loan rates

Source: Industry data

on home loans (both fixed and floating) if the loan is taken by a woman with independent income. Or even if a working woman is a co-applicant with her husband. And earlier this year, the private sector UTI Bank announced its smart privilege savings bank account for women, which offers 25 basis points concession in personal loans (14.50 per cent), while consumer loans, especially durables loans, up to Rs 2 lakh, get 1 per cent discount (13.75 per cent). "We could look at providing concessional housing loans to women in future," says Robita Sengupta, in charge of Smart Privilege, UTI Bank.

In fact, Bank of Maharashtra already offers

concessions to women across all loan categories. Interest rate discounts range from 50 basis points to 1 per cent on home loans, consumer loans, car and personal loans. So, as a woman, you can get a 5-10 year home loan at 8 per cent compared to the 8.50 per cent for general borrowers. Similarly, a 10-20 year woman's loan attracts 8.25 per cent interest rate against 8.75 per cent for general borrowers.

Bank of Baroda has launched Vaibhav Lakshmi, a loan for women employees working in government companies and PSUs, at the minimum level of a clerical job. Under the scheme, these women get loans up to Rs 2 lakh at a reduced interest rate of 11.50 per cent against the usual 12 per cent and 12.50 per cent for personal and consumer durable loans. Vijaya Bank, Canara Bank and UCO Bank are others with concessional loan products for women.

Make the most of these discounts, but one word of caution: first check out interest rates on all available loans. You just might find that an aggressive private sector bank gives you a better deal even in the general category.

ANAND ADHIKARI

MF Scoreboard: Nov. 2005

EQUITY DIVERSIFIED

Rank

1	Can D' Mat	17.95
2	SBI Magnum Multiplier Plus 93-Growth	17.70
3	Taurus Discovery Stock	17.48
4	Taurus Starshare	17.18
5	Reliance Equity Opportunities Fund-Growth	16.99
PEER GROUP AVERAGE		13.28

ELSS

Rank

1	Franklin India Taxshield-Growth	16.00
2	HDFC Taxsaver Fund-Growth	15.87
3	Principal Tax Savings Fund	15.74
4	Franklin India Index Tax Fund	14.23
5	Birla Equity Plan	14.15
PEER GROUP AVERAGE		12.76

BALANCED

Rank

1	Can Balanced II	16.80
2	LIC Balanced-Plan C (Growth)	15.04
3	JM Balanced-Growth	11.37
4	Principal Balanced Fund-Growth	10.79
5	HDFC Prudence Fund-Growth	10.36
PEER GROUP AVERAGE		9.16

Figures are absolute returns in per cent

MIP

Rank

1	LIC MIP-Cumulative	42.16
2	HDFC MIP-LTP-Growth	41.84
3	Reliance MIP-Growth	39.84
4	UTI - Mis Advantage Fund-Growth	38.42
5	Prudential ICICI Income Multiplier Fund-Cumulative	38.24
PEER GROUP AVERAGE		24.96

INCOME

Rank

1	HDFC Multiple Yield Fund-Plan 2005-Growth	18.22
2	Chola Income Plus-Growth	13.90
3	ING Vysya Income Fund-Growth	6.59
4	Benchmark Derivative Fund-Growth	6.04
5	Principal Trust Benefit Fund-Debt Plan-Growth	5.73
PEER GROUP AVERAGE		4.86

LIQUID

Rank

1	LIC MF Liquid Fund-Growth	5.98
2	Sahara Liquid Fund-VP-Growth	5.69
3	Canliquid	5.66
4	DSP ML Liquidity Fund-Growth	5.61
5	UTI Liquid Fund-Cash Plan-Growth	5.56
PEER GROUP AVERAGE		4.96

Figures are annualised returns in per cent
All figures are for the month ended Nov. 30, 2005

Source: MutualFundsIndia.com

Value-picker's Corner

Going Strong



SIEMENS INDIA; PRICE: Rs 3,481

HAVING BAGGED CONTRACTS WORTH RS 2,600 CRORE FOR POWER transmission projects in Qatar, Siemens India looks worth tracking. In September, its order book was Rs 5,200 crore and revenues for the year ended September 30, 2005, were up 60 per cent. Says Amit Rathi, Director, Anand Rathi Securities: "Infrastructure looks strong on the back of some serious developments." An IDBI Capital report says Siemens' growth has been robust across divisions. Gurunath Mudlapur, Director, Atherstone Institute of Research, says investors should keep a roughly three-year horizon, adding: "The stock could touch Rs 5,000 over the next two-three years."

KRISHNA GOPALAN

Trend-spotting

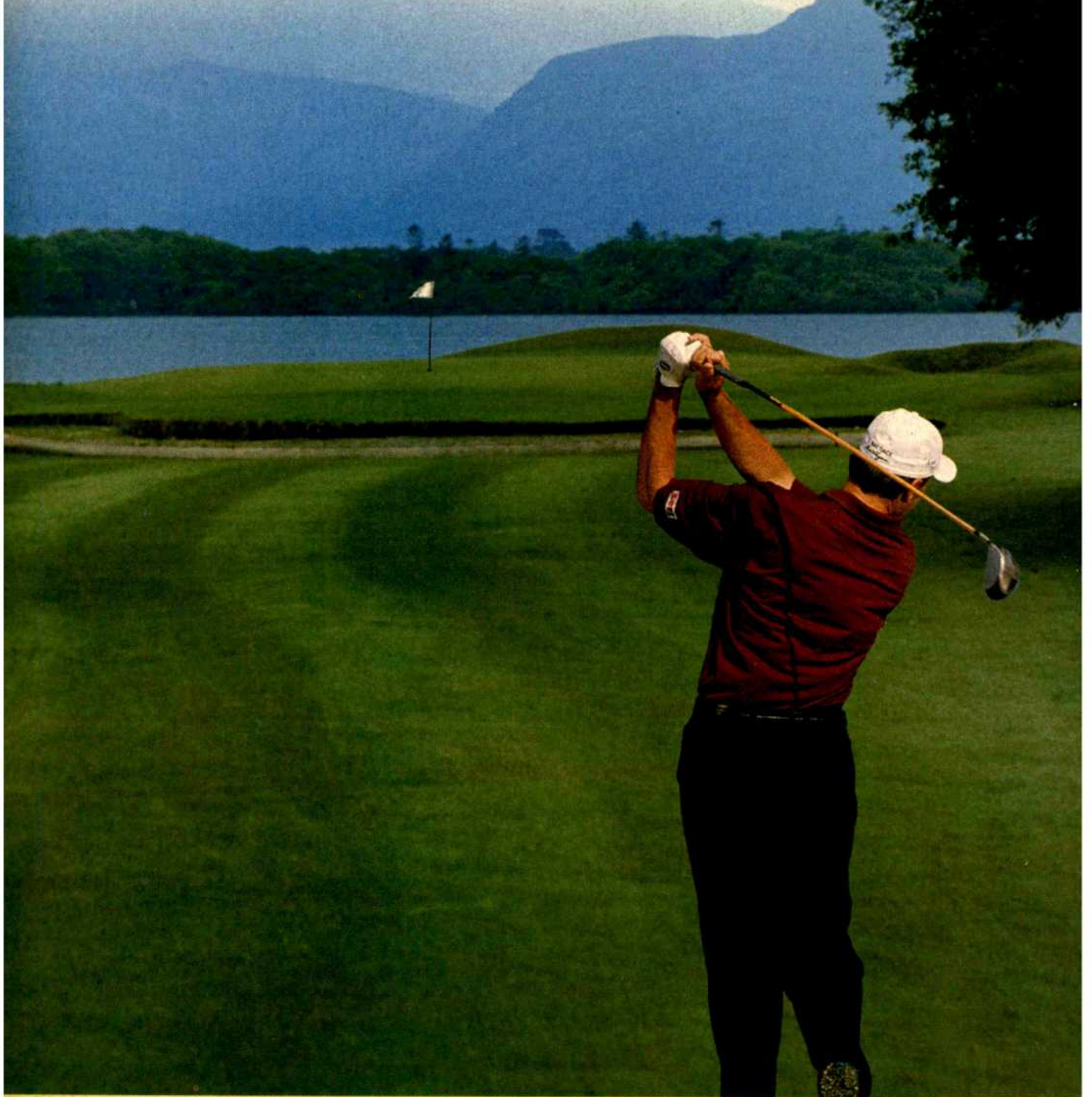
On A Slippery Slope



OIL PRICES HAVE SWUNG FROM A LOW OF \$40.75 PER BARREL TO A high of \$67.26 in August (European Brent). Now, prices are sliding again, reigning at about \$57 per barrel. Is this an opportunity? Industry trackers think so. Sectors most likely to gain: autos, paints, chemicals, power, shipping and petroleum. Says Rajesh Jain, CEO, Pranav Securities: "BPCL looks best, followed by HPCL and IOC; they look good, and the fall in crude prices is an added positive." Jain also says the businesses of some companies are undervalued and thus look attractive today, but "investors need to take a three-year horizon for investing in the sector". ■

KRISHNA GOPALAN

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Will you be there?

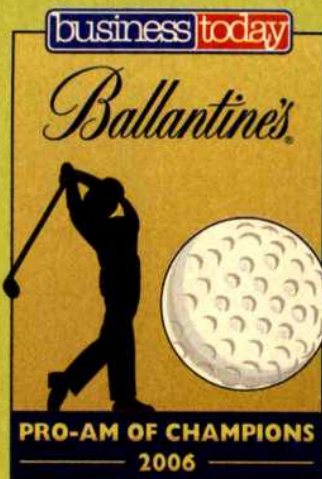


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KGA Golf Club

Kolkata
Feb 4, 2006
Royal Calcutta
Golf Club

Mumbai
Feb 18, 2006
Bombay Presidency
Golf Club

Delhi (final)
Mar 4 & 5, 2006
Classic Golf Resort





DEEPAK G. PAWAR

Mainstay Teleservices' Kevin Duffy: Learning to manage his money the 'Indian' way

BRITS IN BPO JOBS

Tigers And Tribals Apart

For Britons working in the country's thriving BPO industry, the India experience is worth much more than an earned-for nature and cultural sojourn. AHONA GHOSH

VICTORIA HICKMAN IS A BRITON who works part-time as a training consultant for a couple of Indian business process outsourcing (BPO) companies, through a Pune-based recruitment agency, Next. She also works with an NGO, Shelter Associates, which rehabilitates slum dwellers. And when she isn't doing either, Hickman spends her time watching tigers at the Bandhavgarh National Park in Madhya Pradesh. "Watching tigers in the wild was a dream come true," says the 23-year-old, who came to India nearly 10 months ago. Hickman, who's also

met Nobel laureate and the Tibetan leader-in-exile, the Dalai Lama, on one of her trips to the foothills of the Himalayas, feels it's necessary to integrate with the local community to take to the Indian culture.

But Hickman is atypical of perhaps hundreds of other Brits like Kenny Rooney, Kevin Duffy, Adrian Vaz and Andrew Copeland (who returned home last month after an year in GTL, Pune), who work full-time at BPOs across Mumbai, Pune, Bangalore and Gurgaon. For them, unlike Hickman, are not here for their obsession with tigers, culture or social work, but to get that all

important work experience so that they get an edge in BPO careers back home. Another 30 are expected to arrive next month, courtesy Launch Offshore, a UK-based agency that recruits Brits for seven Indian BPOs, including GTL, HSBC in Hyderabad and Supersight in Chennai.

And, there is less and less of backpackers who land up as BPO's Brit recruits. "We do not have too many of these backpackers and most are experienced people with focussed goals in mind," says Anand Desai, General Manager (Human Resources), GTL.

"We offer a recruitment service

Those who go back after an Indian BPO work

wherein a (BPO) client pays us for sourcing, cultural training, and managing the recruit's travel and visa arrangements," says Tim Bond, Managing Director, Launch Offshore. "We also offer a consulting service where a client pays us a monthly fee for the people and we take care of all associated costs, including salary and accommodation."

Indian Salaries, Indian Values

"There is no difference between the wages offered to us and our Indian colleagues," says Rooney. After working as a team leader with GTL for five months at a salary of Rs 25,000 per month, he is currently working for one of the biggest BPOs headquartered in Bangalore. With no preferential salaries or perks for foreigners, no wonder most Brit BPO workers have also taken to changing jobs frequently, much like their Indian counterparts. Well, par salaries and lateral job opportunities for these Brits is also a sign of Indian BPO industry's equal-opportunity status, for what seems to matter to recruiters is experience, the colour of skin notwithstanding, well as long as they have a valid work visa.

Most British recruits, who initially landed up in an Indian job through Launch Offshore, have quickly moved on to better opportunities. Duffy, who came in as a Culture, Voice & Accent trainer for GTL seven months ago at Rs 18,000, is now making Rs 25,000 per month as project manager at Bangalore-based Mainstay Teleservices. He is even learning to manage his money the 'Indian' way, for a better-paying new job also means letting go GTL's free accommodation and travel. So, "no touristy things like eating out, going for beers and travelling around the country now" for him, as he needs to run a full household, rent and all.

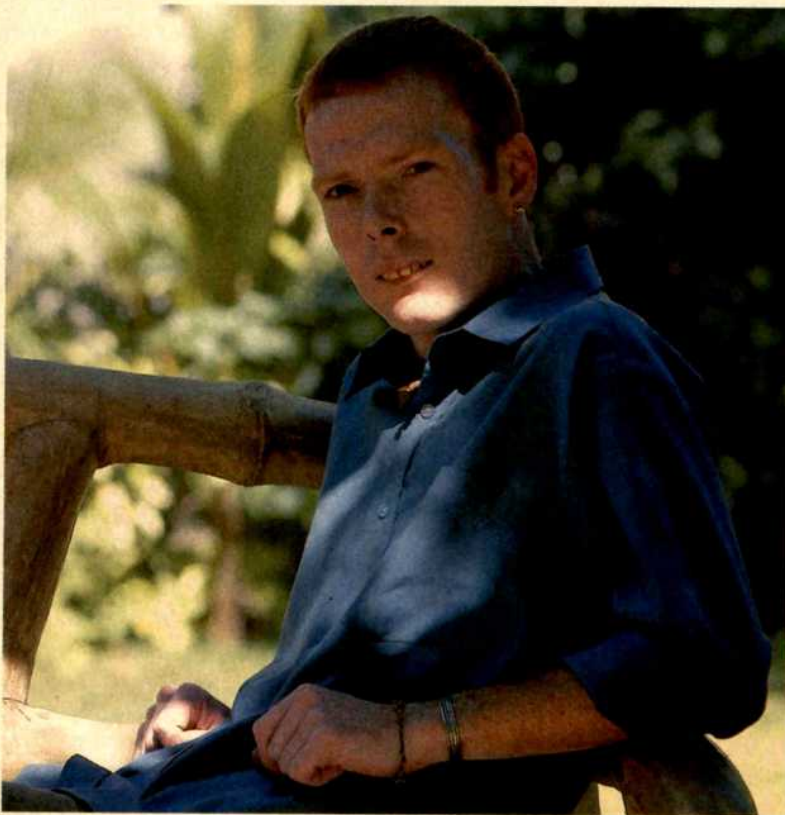
The Takeaway

"I have made so many friends here, (and that's) another reason to stay (in Pune) and not look for a job anywhere else," says Vaz, who works with Oceans Connect, a Pune-based BPO. Normally these Brits do an average stint of one to two years in India, before heading back home. Bond says that those who go back after an Indian BPO work experience take with them unique skills they have developed having worked abroad, and therefore it becomes easier for them to get managerial jobs with companies that offshore work to destinations such as India. As Copeland puts it: "Yes, the job market (in the UK) is very saturated and it's quite tough to get a job. But, it helps to have this experience in India."

And it seems to be a win-win

situation with Indian employers singing praises of some of their British recruits. Desai says that Vaz, Rooney, Copeland and Duffy were motivated team leaders who, at one time, managed to turn around a team of 200 non-performers.

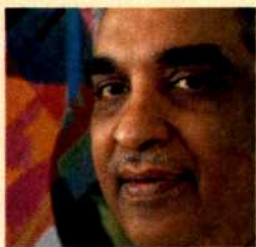
The lasting sentiment of this entire practice provides a nice culture change for all involved. "They do not appreciate a person's work as much in the UK as they do here," says Vaz, pointing out a major difference in the work culture of Britain and India. The friendliness of the Indians has also won the hearts of these Britons. "This experience has left me a far more developed and rounded person," says Rooney. What started out as a backpacker experiment has certainly become a professional trend now.



SOUNIK KAR

Kenny Rooney: It's about the all-important Indian work experience

experience take with them unique skills



COUNSELLING

HELP, TARUN!

I am 34 years old with 14 years of experience in the Army. During my tenure, I was extensively and comprehensively involved with the HR aspects of the organisation like recruitment, training and appraisal. I have also done my PGDHRM and am pursuing MBA (specialisation in HR). What are my prospects for middle and top management positions in the corporate sector?

Your chances of getting into middle management in a tier-II company are good. It will be tough getting a top slot in the corporate world unless the company is small and/or their HR is mainly administration. In a large company, you may have to decide on a particular portfolio to start with, say recruitment or training. This does not mean you cannot rotate to other functions. You have the option of applying to various companies now or waiting till you finish your MBA. If you decide to join a company now, then you might not get enough time to study. So, it might be advisable to finish your management studies first. Also, making a transition from the Army to the highly competitive corporate world may not be all that easy.

I am a 22-year-old computer science graduate planning to pursue MCA. My father runs an engineering workshop and wants me to take charge of it as soon as possible. The problem is that I don't have a sound business acumen and at this stage, am not interested in running the business. I don't know how to get through to my father, who seems to think that pursuing an MCA is a lost cause. What should I do?

You should convince your father that you can take care of the business once you finish your MCA. This way, you will have an additional qualification, learn new technology and bring in fresh ideas to the business and help expand it. In the meantime, develop your network of friends and range of ideas. Once you have completed your course, you can always rethink your career options. If you feel that IT is the career for you, then you can talk it through with your father. Who knows, by then you might actually be interested in running your father's business. If possible, you can work part-time in your family business and see whether you want to pursue it full-time.

I am a 21-year-old history graduate planning to pursue a master's degree in international relations/politics. Thereafter, if possible, I plan to go abroad (the US or the UK) on a scholarship. My ultimate aim is to work for either the United Nations or one of its agencies, but I don't know how to go about it. What kind of educational qualifications/experience does one need in order to work for a world body like the UN?

There aren't too many good institutes in India that offer a degree in international relations. So, make sure you apply to the right one. Alternatively, as you plan to go abroad, you could explore the option of studying international relations at a foreign university. And it will be all the more worth your while if you get a scholarship. As regards the UN, it has many agencies and depending on your interest, the agency and the kind of vacancy they have, your qualifications could vary from social work to accounting to politics to medicine. Check out their website (www.un.org) for more details. They have internship programmes as well as careers for experienced professionals.

I am an English honours graduate, working for the last six months with an advertising agency as a trainee copywriter. I get easily bored with routine work and do not see myself pursuing a career in copywriting. I am, however, interested in social work. On weekends, I help out in whatever way I can in an old age home. I also teach our maid's two children. I want to have a stable career in social work. How do I go about it? Do I need to pursue a course in social work?

As you have an aptitude for social work and want to make a career of it, I suggest you pursue Master of Social Work (MSW). This way, you will get field experience and will specialise in a particular stream of social work, like children, youth and families or health/mental education. Once you have a degree, you can become a labour welfare officer, social worker or community organiser. However, you need to know that a little philanthropy here and there is not the same as being a professional social worker. Spending weekends at an old age home, for example, is not the same as being there day in and day out and being responsible for the elderly. You need to be totally committed to the cause.

Answers to your career concerns are contributed by Tarun Sheth (Senior Consultant) and Shilpa Sheth (Managing Partner, US practice) of HR firm, Shilputsi Consultants. Write to *Help, Tarun!* c/o *Business Today*, Videocon Tower, Fifth Floor, E-1, Jhandewalan Extn., New Delhi—110055.

First Among Equals

Global private equity giant recruits only from IIM-C.



SHAMIK BANERJEE

IIM-C: Global private equity majors, look no further

WHAT IS IT ABOUT THE INDIAN INSTITUTE OF MANAGEMENT Calcutta that makes the bluest of blue chips in the global private equity—"The new kings of capitalism" as *The Economist* magazine recently called them—such as General Atlantic LLC (formerly General Atlantic Partners), recruit only from here amongst all six IIMs, starting last year? An equity investor like General Atlantic always looks for young talent, strong in quantitative skills with an aptitude in financial management. "And IIM-C students have been historically known to be extremely strong in quantitative skills and finance. That's possibly the reason why they only come to us," says Mrityunjoy Mohanty, member, IIM-C's placement committee.

General Atlantic is not alone. More than 80 other private equity majors, and some of them exclusively (such as Credit Suisse First Boston, Bloomberg and Rabobank) flocked to the IIM-C campus last month. Surprisingly, the institute itself is not too excited about General Atlantic coming to them alone for hiring people for the simple reason that it doesn't take in students in large numbers, "just two or three every year," says another placement coordinator. But to the two or three lucky ones, it does make a difference.

RITWIK MUKHERJEE

Corner Room As Stepping Stone

Executive assistant jobs are back in fashion.

REMEMBER THE GOOD OLD DAYS WHEN THE MUCH-sought-after management trainee job at any business school campus was that of an executive assistant (EA) to the CEO (of top companies)? Well, the job is back in favour, right from the MBA rookie to even middle managers looking at adding a CEO-proximity catalyst to their career growth.

Whilst in old economy companies, much like the Tata Group, the EA has been a time-honoured tradition (Tata has one), it is the companies in emerging sectors such as pharmaceutical, auto, retail and apparel that are now recruiting EAs with a vengeance. Madura Garments and Bharti Group's FieldFresh Foods are on the lookout for an EA for their CEOs, according to executive search firm sources. Even the EA's role is changing, from merely corporate planning to business development along with the CEO. With a bird's eye view of the company's operations inside out, and 24/7 access to the big man's ear, many EAs have travelled far and fast in their career much like Anand Mahindra's ex-EA, who now heads the company's Italian operations.

AMANPREET SINGH

Wanted EAs! More and more companies are on the lookout



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Senior Management Jobs

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Afila Tech India Pvt. Ltd., Director - Network Validation Engineering, Bangalore, 10 to 12 Years, 26865198

Design, develop, document and execute system level verification tests for IP routers. Should possess outstanding problem solving skills in the diagnosis and resolution of issues.

Charities Aid Foundation India, Head - Donor Services, Delhi, 7 to 10 Years, 36885224

Actively promote the range of services CAF India offers to corporate clients, extend the use of the range of services amongst existing client base and to new clients within sector specific areas, ensure the development and execution of work-plans, budgets, funding proposals, etc.

Eliyon Systems, Chief Financial Officer, Bangalore, 10 to 15 Years, 37080100

Long-Term financial planning & structuring, high quality balance sheet preparation, liaison with bankers, working capital management, budget preparation, MIS and control features, R&D capitalization knowledge, etc.

FCS Software Solutions Ltd., Vice President - Sales, Noida, 10 to 12 Years, 36108631

New client acquisition, execute various sales plans, sales team hiring, training and day to day management, meet quarterly revenue targets, strategic alliances and partnership with companies to get sub contracted work, close coordination with operational teams, etc.

Financial Software & Systems (P) Ltd., Head - Operations, Chennai, 15 to 18 Years, 37122524

Lead and manage a large team of resources for the Technology, Infrastructure, Operations and Networking functions, provide 24x7 technical and production support at FSS locations in Chennai and Mumbai.

Hewlett Packard, Director - Srv Bus Mgmt II, Bangalore, 15 to 18 Years, 37102065

Handling allocated call and e-support volume by PL, managing performance to metrics, managing pilots for improving performance of overall CSD operations, managing engineering center services, etc.

Impetus Solutions, Director - Implementation Services, Mumbai, 10 to 14 Years, 36949568

Create value proposition in Implementation services area in line with iSmartPanache Integrated Services model, responsible to build and manage software product/applications implementation services team, etc.

Infotech Enterprises Limited, General Manager - MIS, Hyderabad, 15 to 18 Years, 37079097

Should have experience in defining MIS requirements, creating & institutionalizing measurement matrices & processes, application development environment, sound knowledge of finance, accounting & invoicing, etc.

Interface Cybertech Pvt. Ltd., General Manager - Quality, Chennai, 10 to 15 Years, 36654726

Plan and control the Quality infrastructure of the organization, reviews program plans to establish appropriate quality assessment (metrics planning) and improvement methodology, improve current processes, etc.

IP Soft India Pvt. Ltd., Regional Director - Sales, Bangalore, 8 to 10 Years, 29509389

Responsible for client delivery assurance and business development within India, Asia Pacific business regions, will head the team of Senior Business Development Executives, etc.

Itellisense Pvt. Ltd., Vice President - HR, Bangalore, 8 to 10 Years, 35737587

Building a team from current strength of 200 odd based in Mumbai and Chennai, to growing it to a 1000 plus global team in the next three-five years. A key part of the role will involve defining processes for sourcing, training, compensation, payroll, appraisal, etc.

Oracle India Pvt. Ltd., Director - Shared Services, Bangalore, 15 to 17 Years, 36589034

Accountable for the overall management of the team services function and will be responsible for the quality and timeliness of delivery of the work products from this organization, recruit and train staff of staff to perform various support function for SSC globally, etc.

S P Jagannath & Sons, Head - HR, Delhi, 8 to 10 Years, 37130625

Must have in-depth knowledge of labor law experience of liaisoning with government departments, should be able to assist management by providing inputs in framing HRD policies & be able to identify recruitment etc.

Sutherland Global Services Pvt. Ltd. General Manager - Service Delivery, Mumbai, 12 to 18 Years, 36890612

Meet delivery commitments, ensure schedule adherences and adhere to SOW's, interact with Senior management and clients to improve productivity, maximize employee productivity and grow service volumes, etc.

Technical Systems Corporation, General Manager - Legal, Mumbai, 15 to 18 Years, 36985956

Incumbent should be an L.L.B, preferably solicitor with specialization in property transactions. Should have thorough understanding of legal and government procedures relevant to property issues, expertise in providing in-house legal services, property laws and matters.

Transport Corporation of India Ltd. General Manager, Delhi, 7 to 10 Years, 36837603

Responsible for developing systems, dealing with Vendors and Buyers, control costs, should be able to effectively manage production, finance and administration.

Turbomachinery Engineering Industries Ltd., General Manager - Projects, Secunderabad, 10 - 15 years, 37038462

Total responsibility for implementation of Green Field Project well within the stipulated project schedule with respect to time, cost, quality.

Zoom Developers Ltd., Vice President - Contracts & Commercial, Mumbai, 15 to 20 Years, 36942007

Civil/Mechanical/Chemical Engineer Graduates with experience in negotiating technology and equipment suppliers in Chemical/Engineering Industries. Should be capable of guiding/assisting the legal department in drafting contracts.

To know how to apply for these jobs, go to finance jobs listing page.

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IT Jobs

Read in the following order - Company Name, Position, Location, Experience, Job ID, Job Description.

Advait Chitalia, Senior Software Engineers, 3 - 5 years, Mumbai, 7138497

Working experience of 3-4 years on DotNet and 1-2 years experience in Sharepoint. Knowledge of OOAD, System Architecture Design and System Integration. Exposure to direct Client Interaction is a must.

Apptix Software India Pvt. Ltd., Sr. Software Developer, Pune, 3 - 5 years, 6106813

Develop software for Apptix Platform TECOS 5.1, assist in requirements gathering, analysis, design and project planning of future Software Platform TECOS 5.0, assist in refinement/definition of software engineering processes/practices, etc.

CEI India Pvt. Ltd., Informatica Developer, Chennai, 2 - 5 years, 5375360

Data Warehouse development experience & 2+ years hands on Informatica development experience is must. Strong knowledge of Informatica 5.x and 6.x.

Cyborg Technologies, EDA - Product Validation, Noida, 10 - 15 years, 4454451

Drive development and deployment of tools and software test methodologies that will help to continually improve and validate the quality, consistency and performance of Atrienta products.

Indus Solutions India Pvt. Ltd., PHP Developers, New Delhi, 3 - 6 years, 7138157

Minimum experience having worked in Web application Development / Production, support & Maintenance environment, experience in PHP is must and worked on ASP, Oracle PL/SQL, and PHP.

Uno Online, Senior Systems Engineer, Hyderabad, 5 - 7 years, 6394816

Responsible for Windows NT System administration for the Hyderabad office, ensure timely and efficient user support for the Hyderabad office, assure follow through with all problems and keeping supervisor advised of status on different projects, etc.

Kanbay, Performance Test Analyst, Pune, 5 - 7 years, 36809485

Independently devise test strategy, perform VuGen scripting, create scenarios, report results and analyze. Candidate would use Vugen 7.8/8, Performance Center 7.8 and the tuning tools/profilers available for the project.

LG Soft India, Software Engineer, Bangalore, 3 - 5 years, 36707896

Good exposure on C. C++ and should have worked on OS's like Win CE, Symbian, REX and AMX. Must have a minimum of 2 years of experience in i- mode with good exposure to WAP.

Microsoft SMSG, Solution Specialist - Comm. Sector, Delhi, 8 - 10 years, 34273453

Identify unique local ISV/ external SI partners & such other server based solutions for the target list of accounts to further MS platform technology demand & create unique biz proposition of value.

Nexpro Solutions, Network Engineer, Mumbai, 2 - 5 years, 37139463

Graduates/Diploma holders having minimum 2 year's experience in networking/security. Exposure to security firewalls like Pix & Checkpoint is essential. Good Communication skills and interpersonal skills required.

Satyam Computers Services Ltd., Project Managers - Oracle Technical, Hyderabad, 6 - 8 years, 36338252

Experience of 4-5 years in oracle applications and minimum 5 implementation in oracle 11i modules covering oracle financials or manufacturing. Experience in RICE is essential. Good communication, people management, customer relationship management and leadership skills are essential.

Savvion India Pvt. Ltd., Software Engineer - Product Development, C#. Net, Mumbai, 3 - 7 years, 37138481

Design and develop new features and functionality of Savvion BusinessManager™ portal, understand the product plan for each release, estimate the efforts, design and implement assigned responsibilities in timely manner, etc.

Sena Systems Pvt. Ltd., Java/J2EE Developer, Pune, 3 - 5 years, 34739704

Design, develop, install and configure customized software security solutions based on client requirements, perform testing, debugging, performance analysis/monitoring and maintenance activities for solution implementations, etc.

Shuken Systems, Tandem Professionals, Pune, 5 - 7 years, 36582208

Possess knowledge of COBOL, SCOBOL, SQL, ENSCRIBE, SQLMP, PATHWAY, INSPECT preferably with Financial/Brokerage Applications, familiarity with S series Tandems.

Sify Limited, SQL Database Administrator, Chennai, 3 - 5 years, 36885317

Certified DBA's MCSE / MCDBA are required with 3+ years in MS SQL administration / Windows NT / 2000 administration. Excellent communication skills is must.

Sun Microsystems, Web Tier Technologies, Bangalore, 2 - 5 years, 37138482

Designing and developing modules of the web and/or proxy server in consultation with the technical leads, work with the quality team to review and provide feedback on test plans and test specifications for these modules, etc.

TechPoint Solutions, System Architect, Bangalore, 8 - 10 years, 34686242

Needs to have a good hold on Chip, HW and SW and Deployment Scenario of VoIP. Will play the role of the architect; should be able to understand customer requirement & provide the solution using existing SW or translating it into the requirement & architecture & enable Engineering team to deliver the customer requirement.

Wipro Limited, Lotus Notes - Technical Specialist, Mumbai, 4 - 5 years, 37027318

Responsible for design, implementation, operation, maintenance, backup, system security and system integrity of Microsoft Operating systems and Lotus Domino, including Active Directory, maintain and monitor all systems within environment to ensure optimal performance, etc.

To know how to apply for these jobs, go to finance jobs listing page.

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Sales and Marketing Jobs

Read in the following order - Company Name, Position, Location, Experience, Job ID, Job Description.

Amicon Technologies Pvt. Ltd., Sales Associate, Mumbai, 2 - 5 years, 37071536

Solving customer queries, marketing the company product, promoting new schemes, etc. Excellent communication & co-ordination skills, flair for sales and target orientation.

Electrobug Technologies Ltd., Sales Analyst, Gurgaon, 1 - 2 year, 33441296

Creation of proposals & collaterals for new clients, based on templates, development of mock sample reports in new segments / industries, confirmation that certain capabilities are possible or not, client communication, and demo presentations.

IDS Softwares Pvt. Ltd., Asst. Manager - Software Sales, Kolkata, 1 - 2 years, 37150079

Responsible for creating new business opportunities, develop existing customers, achieving & exceeding the group & individual sales targets. Well developed communication skills, both written and oral.

Finex Distribution Pvt. Ltd., Sales Managers, Mumbai, 2 - 5 years, 36986009

Experience in the sales or marketing of luxury products, consumer goods or related fields is must. Excellent written and verbal skills are expected, as are a result-oriented approach to achieve excellence, and a willingness to learn.

G.C. Associates, National Sales Manager, Bangalore, 10 - 15 years, 37118763

Graduate in Engineering/Science/Arts followed by MBA/Dip Sales-Mktg from a top class institution with proven track record in sales/marketing at the national/regional level in a leading FMCG/Financial Services organization is a must.

Genesis Automation Pvt. Ltd., Sales Engineer, Madurai, 2 - 5 years, 36863132

Promote/market industrial products like SS Pumps, SS Pipe Fittings, Dairy/Food/Pharma Processing Equipment, Plate Heat Exchangers, Precision/Disc Springs, Rubber Components etc.

Genser Aerospace & IT Pvt. Ltd., Executive Marketing, Bangalore, 2 - 5 years, 36945599

Global Marketing and business development for aircraft parts trading business, aviation/aerospace consulting and services business, manufacturing outsourcing business

HPM, Inc., Senior Sales Executive, Bangalore, 3 - 5 years, 37052287

Minimum experience required in selling Enterprise Solutions/Storage. Very strong understanding of HP Cross platform solutions including Servers & Storage. Enterprise Storage

Inox Leisure Ltd., Marketing Managers, Indore, 5 - 7 years, 37139141

Responsible for generation, maintenance & renewal of non-ticket & concession revenue through local marketing partners, institutional sales, & advertising revenues. Will also identify, & develop new sources of revenue from

Iris Software Pvt. Ltd., Business Development Manager, New Delhi, 5 - 7 years, 33406675

Possess prior sales experience and must have been responsible for sales of technology-based services and products such as IT consulting, staffing, solutions, project based services, etc.

K 10 Technologies Pvt. Ltd., Sr. Executive - Inside Sales, Mumbai, 2 - 5 years, 31943708

Provide prospecting and qualification support for our sales team to cover assigned territories, execute qualification calls to a set of targeted Fortune 1000 accounts to uncover opportunities for sales follow up

Lemon Systems India, Sales Engineer, Mumbai, 3 - 5 years, 37071829

Responsible for technical sales of CNC machines and should be dynamic and able to chase targets, have excellent verbal and written communication skills and also have good engineering knowledge.

Meteor Solutions, Country Manager Sales, Bangalore, 10 - 15 years, 37027

Strong experience and exposure in product corporates. Highly dynamic and versatile selling software products. Excellent exposure of the software industry.

Parsec Technologies Ltd., Area Manager - Sales, Hyderabad, 3 - 4 years, 36809051

Generation of leads in the assigned territory, account development and management prospective customers - Direct/ Char closing & negotiating sales deals, main relationship with existing customer/Partners/Customer of competition, etc.

Powerwave Technologies, Regional Sales Manager, New Delhi, 5 - 8 years, 36971319

Responsible for regular travel to customer within the region to visit all customer & developing relationships, sales and soliciting customer feedback.

Ross Boilers, Sales Engineers, Pune, 1 - 2 years, 37031305

Sales engineers for selling process equipment like steam boilers, thermic heaters, hot water generators, food processing machines, etc. Candidate with prior experience in selling capital equipment will be preferred

Sparr Electronics Ltd., Marketing Managers, Bangalore, 2 - 5 years, 36989738

Establish marketing strategies to meet organizational objectives, evaluate customer research market conditions & competitor and implement marketing plan changes needed, responsible for achieving the targets, etc.

Winsoft Technologies (I) Pvt. Ltd., Senior Corporate Sales Executive, Mumbai, 3 - 4 years, 32707521

Generate business for the products & services of the company, create new business opportunities in the financial sector, set up give product demos and presentations, achieve business targets, create & manage customers, etc.

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Finance Jobs



Lead in the following order - Company Name, Position, Location, Experience, Job ID, Job Description.

Agilent Technologies, Inc., Finance Supervisor, New Delhi, 3 - 5 years, 7119964

Manages financial and accounting personnel in the delivery of accounting data, financial information and analysis. Directs the development, implementation and administration of financial transaction processing systems and procedures.

Corporate Solutions, Internal Auditor, Hyderabad, 4 - 10 years, 35156285

Business process risk assessment and audit planning, process mapping, internal audit reporting, etc. Strong Internal audit / controls experience. Ability to prioritize tasks, work on multiple assignments, and manage ambiguity.

Acco Steels, Accounts Assistant, Mumbai, 2 - 3 years, 37139563

Job involves data entry of sales/purchase invoices, book keeping, answering phone calls, generating delivery orders, and knowledge in precise documentation will be preferred.

Mercon (India) Limited, Dy. Manager Accounts, Across India, 10 - 15 years, 7130908

Experience in core accounts in a medium sized construction / engineering / project, must be capable of independently finalizing balance sheet, should be well acquainted with Insurance, Income Tax, Sales Tax & other related statutes.

QURA, Internal Financial Auditor, Bangalore, 5 - 7 years, 37119165

Coordinate with Corporate Internal Audit group and any external audit agency, plan and execute regional compliance audits, facilitate effective action planning, coordinate with global resources of and drive best practices, etc.

ANUC India Pvt. Ltd., Tax Officer, Bangalore, 7 - 10 years, 36886014

Candidate should be able to proactively provide advice on tax matters to the Head of Taxation & operating divisions & gain acceptance as a key member of corporate team. Hands on experience in routine tax filings, representation completion of Assessments preferred.

Haribhakti Group, Assistant Manager - Indirect Taxation, Mumbai, 2 - 5 years, 37076537

Work with the team in handling matters related to the Indirect Tax areas like Service Tax, Excise, VAT & other indirect Tax Laws. Handle all the departmental communications and Drafting Skills.

Hindustan Polyamides & Fibres Ltd., Accounts Assistant, Kurkumbh, 1 - 2 years, 36717938

Job involves day-to-day accounting functions like payments processing, petty cash handling, book keeping, banking transactions, export documentation. Knowledge of computerized accounting is must.

Indigo IT Solutions, Officer Accounts, Hyderabad, 10 - 12 years, 36818768

M.Com with experience in accounts & finance department. Should have experience in any financial package and should take care of day-to-day accounts, finalization of accounts. Must be proficient in Computer skills with good communication skills.

I-Pay Clearing Services P Ltd., Manager - Accounts, Mumbai, 5 - 8 years, 35380603

Develop, implement and maintain a very effective accounting system and ensure constant improvisation on accounting processes in order to gain efficiency and strengthen internal control.

Khambatta Securities Ltd., Accounts Head, Mumbai, 5 - 7 years, 36812908

Responsible for day to day operations comprising of managing overall accounting functions of the company, banking and organizing bank facilities, bank reconciliation, costing, liaison with banks, financial institutions, etc.

Key Information Technology LLC, Accounts Supervisor, Bangalore, 3 - 4 years, 36939532

Inter CA or CA for (AS) / B. Com or M. Com for (AA) with relevant experience in IT industry. Candidates should have qualities in overseeing a team of accounts executives liaising with auditors / bankers and with knowledge of ERP system, logistics, and letter of credits.

Proactive Corporate Services Pvt. Ltd., Finance Analyst, Mumbai, 2 - 3 years, 36997270

Assist in preparation of financial performance reporting (Daily, Monthly, Annual) for top management, management of the end to end data flow into the Banks ERP and responsible for checking and submitting analysis of cost allocation and funds transfer pricing, etc.

Spectrum Solutions, Accounts Manager, Mumbai, 5 - 7 years, 36830303

Job involves handling finalization, budgeting & taxation, service tax, company laws & all other related accounts functions. Should possess thorough knowledge of taxation & budgeting, finalization, audit, service tax & company laws etc.

Stratagyn, Inc., Financial Controller, Pune, 9 - 15 years, 36708287

Manage, plan and control the financial, treasury and legal activities of the company, to safeguard the assets of the company, to support the achievement of these country's business and financial objectives and to provide financial leadership and consultancy to the management group.

Synergy People Solutions Pvt. Ltd., Senior Officer-Management Accounts, Bangalore, 3 - 7 years, 36709456

Should have done cost and management accounting with respect to pricing, costing, variance analysis, budgets, planning and forecasting, profit and loss accounts etc.

United Pizza Restaurant Pvt. Ltd., Accountant, Bangalore, 4 - 7 years, 36992410

Correct and accurate accounting for all corporate and other entities who corporate is responsible for to reflect a true and correct statement of affairs, general accounting for corporate accounts or owned / managed outlets.

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Problem Of Plenty

Too much water could never have been Chennai's problem. But torrential rains, made worse by the city's choked drains and canals, had its people wishing for a dry piece of land, if not better infrastructure, says Vaishna Roy.

CHENNAI

Sunday, December 4

IT'S HALF PAST ONE IN THE MORNING, AND I AM STANDING on the nondescript Kotturpuram bridge. No, I am not about to throw myself off the bridge. Instead, like dozens of disaster tourists around me, I am peering into the dark, oily water swirling up in volumes that the residents of this water-scarce city have seldom seen. Torrential rains over two straight days have finally drowned the city, already limping from two previous rainstorms. In the early hours of Saturday, authorities have been forced to release about 17,000 cusecs of water from the Chembarambakkam lake and the Red Hills reservoir. That has caused the already swollen Adyar and Cooum rivers, which snake through the city on their way to the sea, to flood their banks, devastating low-lying areas along the waterways.

Driving towards Kottur, we are forced at one point to turn back as we meet water rising menacingly in the narrow street in front of our eyes. It's a poor neighbourhood, and people are lining up outside their homes, waiting quite passively for the flooding to begin. As always, the poor are the worst hit, and these tenements and slums closest to the rivers will soon be washed out. And the loss to business is, of course, tremendous. Shops, offices, factories, and schools are closed, commuting

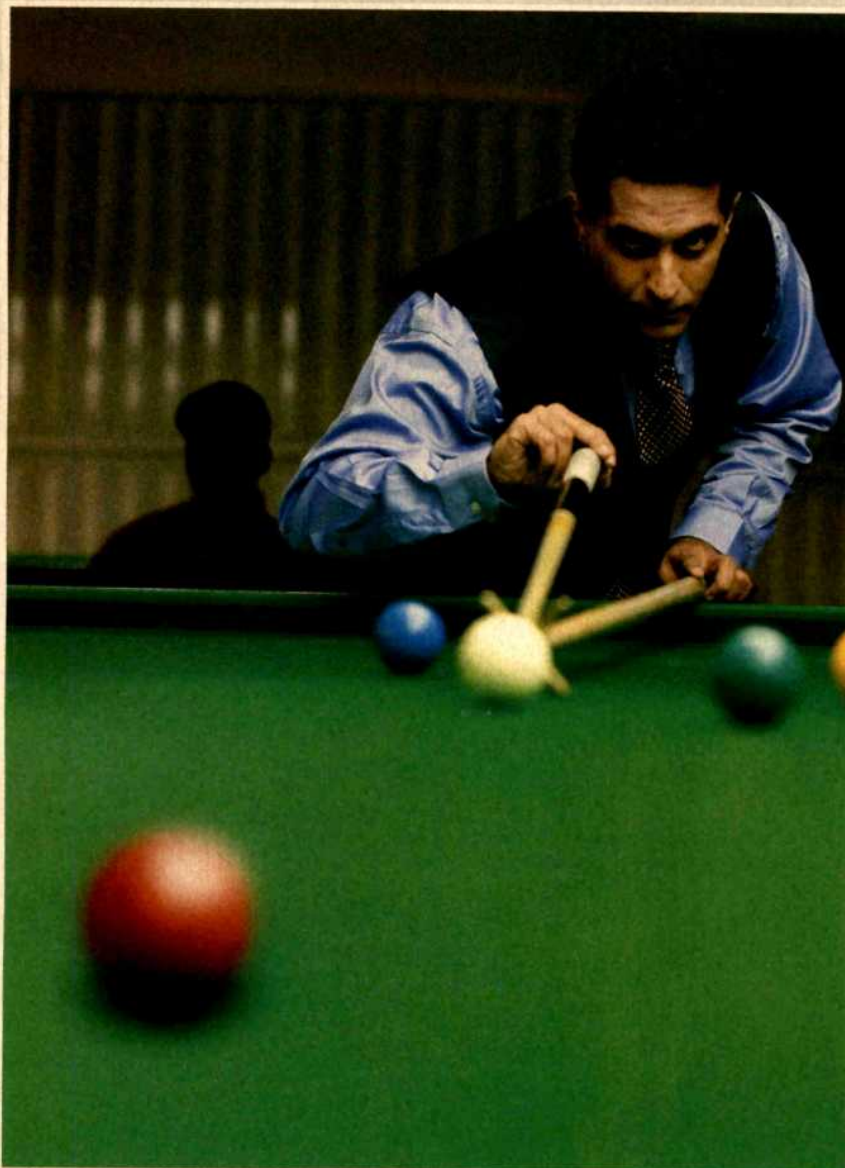
has halted, and with pillar-boxes under water, electricity has been cut off to many areas. After Mumbai and then Bangalore, all this now looks very familiar.

The Adyar river runs alongside the Guindy Industrial Estate (GIE), a major hub for small and tiny scale industries in the city. That morning, factory owners, hearing of the impending water release, rushed to



Disaster zone: Industrial units like this one in Ambattur have been the worst hit and recovery will be a long haul

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move machinery and stores out of ground floors and basements to higher floors. Within hours, water gushed in, rising well over eight feet in the worst affected parts. Later that evening, I am talking to Vijay Subramaniam, who owns an SSI unit there. He has been there all day with his workers, trying to contain the damage: "We are under eight feet of water, I have taken out what I can, but there's machinery bolted to the shop floor... motors and generators are ruined."

Of roughly 500 factories in the Guindy Industrial Estate, about 150 are located along the river and they are the worst affected. Says T.C. Dayalan, Hony Gen. Secy, Tanstia (Tamil Nadu Small And Tiny Industries Association): "Losses to units in the GIE range from Rs 4 lakh to Rs 12 lakh each. Motors, transformers and finished goods have been destroyed."

The Ambattur Industrial Estate in north Chennai is another disaster zone. A channel running through the estate takes most of the overflow from the Red Hills Lake, and the estate is easily flooded. About 950 units in the north phase are worst hit. Says K.P. Shashidar Rao, President, Ambattur Industrial Manufacturers Association (AIEMA): "The estate has a turnover of about Rs 5 crore per day. We have lost Rs 20-25 crore." For Ambattur, the heavens couldn't have opened up at a worse time. Home to a variety of industries including auto-parts, engineering, garment, leather, and electrical equipment, it is going through a boom. Most of the factories, especially auto components and garment units, are working 24/7 to meet unprecedented export orders. But this third consecutive rainstorm has caused huge damage. Says Rao: "We run the risk of our buyers turning elsewhere." AIEMA has asked the Central damage assessment team to consider re-routing the channel outside the estate.



Knee-deep in trouble: Factory owners fear that delays in delivery may result in loss of export orders



PHOTOGRAPHS BY H.K. RAJSEKHAR

Ready to dive in?: That's a swimming pool the builders of this tony apartment complex hadn't planned on

IT'S ABOUT 11.30 ON SUNDAY MORNING, AND I AM driving down Old Mahabalipuram Road. It is the road that goes from Tidel Park to Siruseri—the stretch proudly termed Chennai's IT Corridor. Well, the IT Corridor has collapsed. There is no tarmac to speak of, just a series of water-filled craters into which my car falls with a gut-wrenching thud every two minutes. The traffic has piled up on both sides, a bus and a mini-van have broken down, adding to the chaos, and when the rain starts again, the mayhem is complete. Down this road are Infosys, TCS, Cognizant, Wipro, Orchid Pharma, Grundfos... and many of these units are under water.

It's not just the tangible loss—shops, especially in the flooded interiors, have stayed shut for days. Restaurants and cinemas have run empty as the rains kept people at home. It's going to be a while before the losses can be quantified. Mercifully, there have been no reports of looting. When this report was being written, the Union government had given Chennai Rs 500 crore (against the Rs 13,000 crore asked for) in aid, and another cyclonic storm, Fanooz, was headed towards the Tamil Nadu coast.

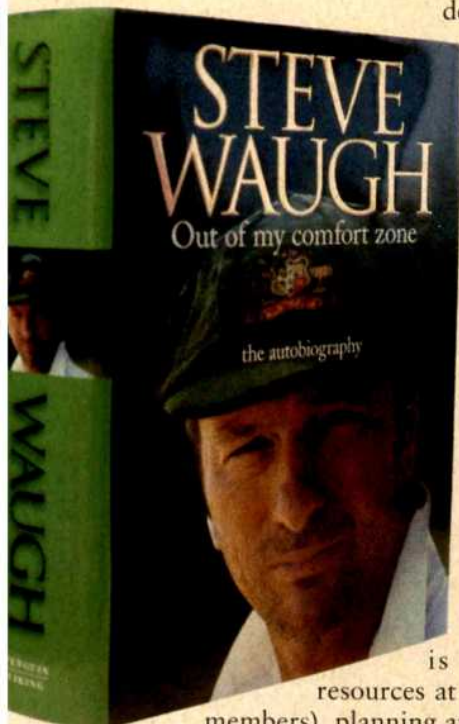
But basically, it's this: after decades of dry weather, the administration is guilty of being totally unprepared to meet the heaviest rains to hit Chennai in almost 65 years. Drainage is miserably inadequate, roads can't handle the pounding... Worse, with irrigation channels and catchment areas running dry for decades, there has been large-scale encroachment—slums, colonies and even factories have been built on lake and canal beds, while the administration looked the other way. Now, the city is paying the price for it. ■

Tugga War

The autobiography of the man who changed the way Test cricket is played, Steve Waugh. R. SUKUMAR

STEVE WAUGH
OUT OF MY
COMFORT ZONE

The autobiography
Viking
PP: 801
Price: Rs 895



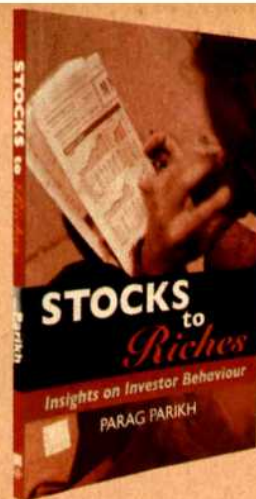
AT AROUND 800 PAGES AND 1.5 KG, STEVE Waugh's autobiography (*Steve Waugh, Out of my Comfort Zone*) is what book-critics habitually refer to as a doorstopper. That, this book, written by Waugh himself without the ubiquitous ghost writer, is. In some ways, it is also pretty much like the typical Steve Waugh innings,

determined, functional (not beautiful or polished), and honest. As indicated by its size, this is a book that doesn't leave out much of Waugh's life, from his birth on June 2, 1965, to the 2003-04 series in Australia that India famously tied. And it covers almost every bit of cricket Waugh has ever played.

Cricket fanatics, those of the breed that are fond of the written word and Waugh especially, will doubtless read this book, and like it. After all, it was during Waugh's reign as captain of the Australian cricket team that it became the best in the world, in both versions (Test and one-day) of the game.

Captaining a team, however, is also about using best the resources at hand (read: the skills of team-members), planning and strategising, and continually motivating people. In many ways, that isn't very different from running a company and extending this analogy, for some time in the early 2000s, Waugh ran the best company in the world (actually, he made it the best company in the world, one reason why his autobiography is being reviewed here, in a business magazine). He also changed the way Test cricket is played, and teams like South Africa, England, even India have tried to emulate the Waugh model of scoring fast while batting and attacking consistently, while bowling; that formula, has, over the past few years, served Test cricket well, producing more results (than draws) and attracting crowds to the game.

Management-types looking for any insights on this (building and running a great team/company) will not be disappointed. Waugh's book has enough of the same, though much of them remain unstated, and people wishing to benefit from them will have to master the art of reading between the lines (those who can't will have to do with John Buchanan, the current coach of Australia who was also coach during the Waugh era, and who is a regular on the lecture circuit, speaking on team-building and the like). ■



INVESTING 101

STOCKS TO RICHES

By Parag Parikh
Tata McGraw-Hill
PP: 128
Price: Rs 195

IT'S A GREAT TIME TO BE WRITING A book on stock market investing. When this review was being written, the Sensex was hovering near 9,000, and an ecstatic Dalal Street was chanting 10,000. But Parag Parikh's book, despite its alluring title, isn't about how to profit from the stock boom. Rather, it's a guide to sane investing. In simple English, Parikh, a Mumbai-based stock-broker, starts by explaining the concept of investing, how it is different from speculation, why investors behave the way they do, and then wraps up with some interesting observations on the stock market bubble. The book is loosely edited, but if you are willing to overlook it, then you will be rewarded with some straightforward advice on investing. Of particular interest to readers who don't take investing seriously will be the chapter on mental accounting, which talks about how people tend to differentiate between gifted income and earned income, and be liberal in spending the former. Parikh's advice: Treat all income as earnings. At Rs 195, the book may be the smartest investment the irregular investor can make.

Back of the book

THE DEATH OF A
MINING TOWN

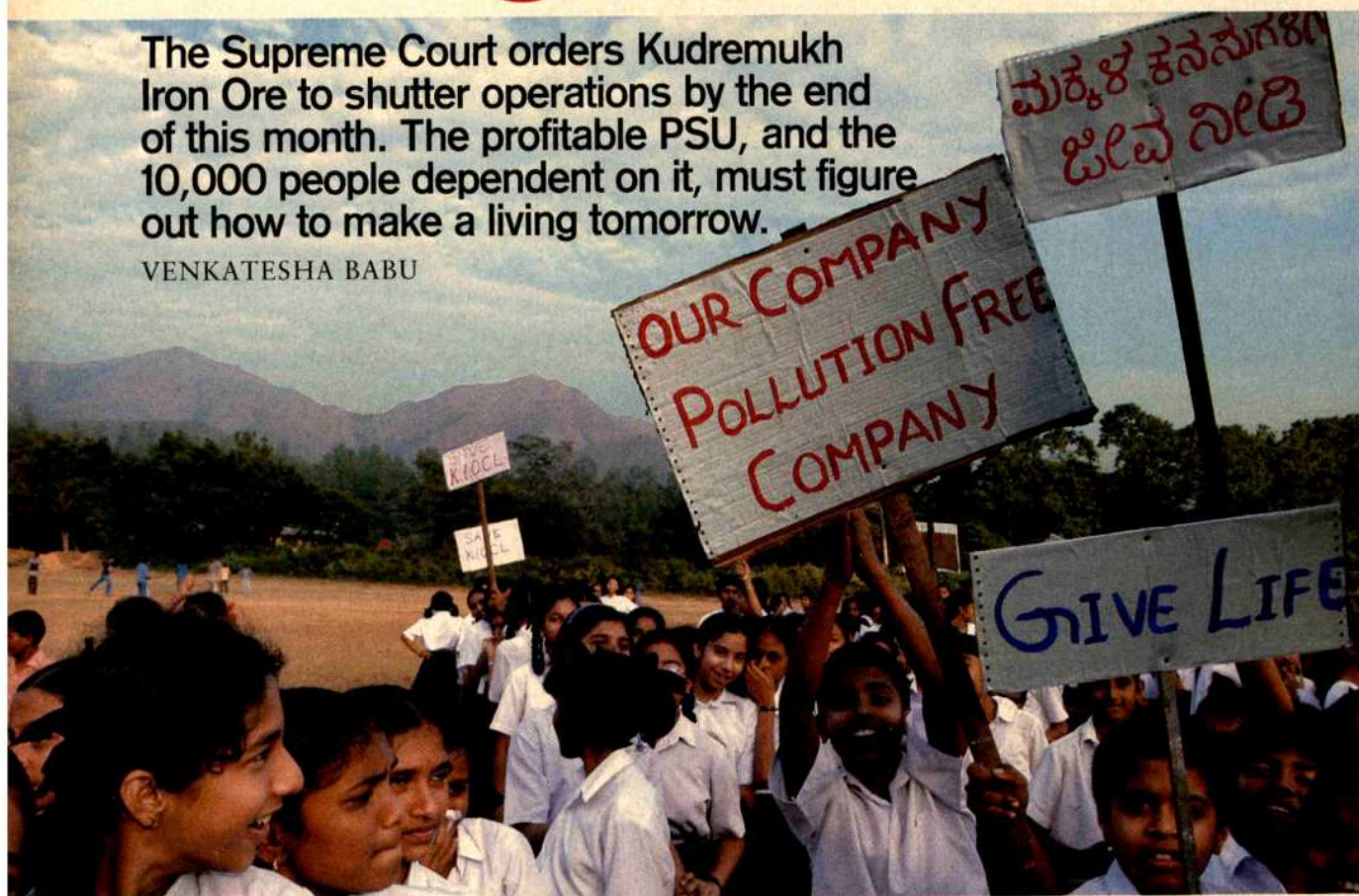
TREADMILL

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The Death Of A Mining Town

The Supreme Court orders Kudremukh Iron Ore to shutter operations by the end of this month. The profitable PSU, and the 10,000 people dependent on it, must figure out how to make a living tomorrow.

VENKATESHA BABU



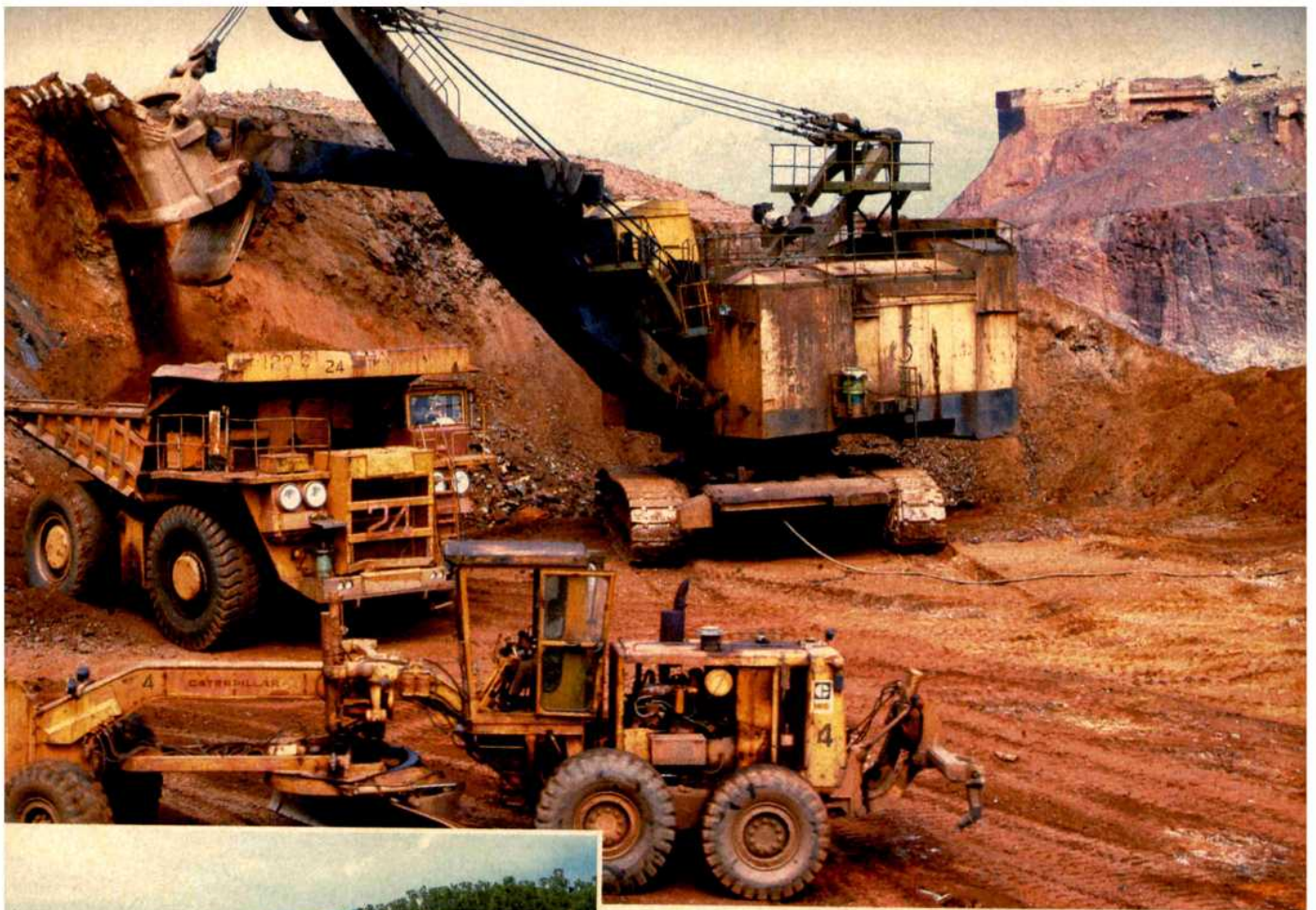
Future uncertain: School-going children of KIOCL employees make a last-ditch attempt to save their parents' jobs

SITUATED 6,215 FEET ABOVE SEA LEVEL, Kudremukh seems more like an idyllic retreat than home to India's largest iron ore mine. The mining town sits amidst rolling hills and lush green forest, with the Bhadra river flowing softly 2 km in the north and the Kadambi waterfalls making a thunderous racket towards the south-west. For the 10,000 or so people who live in Kudremukh Iron Ore Company

township, it's been a paradise for nearly three decades.

But now, there's trouble in paradise.

On November 29 this year, a three-member bench headed by Chief Justice Y.K. Sabharwal dismissed a review petition and ordered that all mining activities be stopped by January 1, thus bringing to an end a 10-year battle between KIOCL and environmentalists, who claim that the



Earth-moving monsters: They'll go silent soon



PHOTOGRAPHS BY DEEPAK G. PAWAR

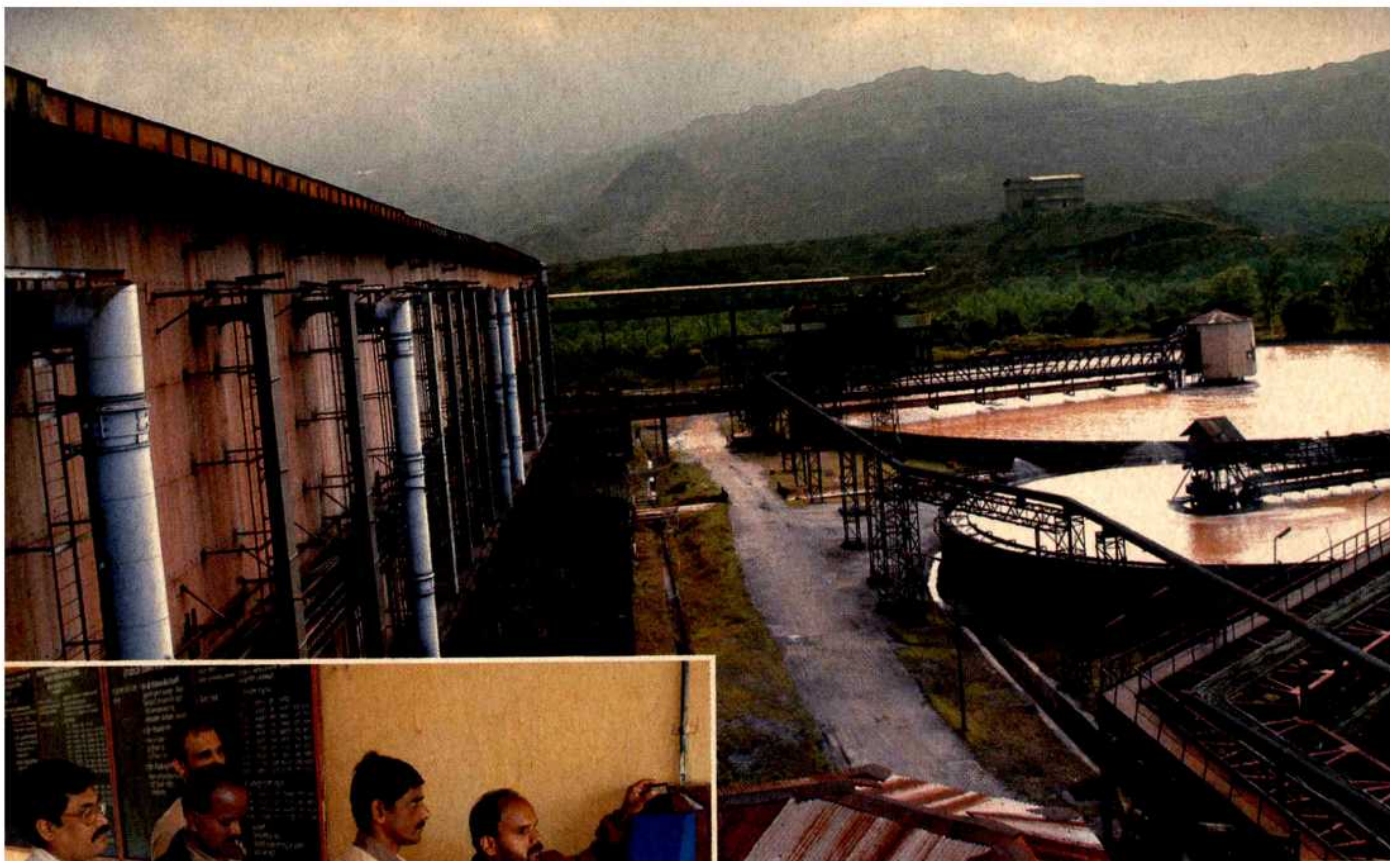
The problem: Waste from the mines ends up in Lakhya dam

company's open-cast mines have ruined the local ecology. Says Leo Saldhana of the Environmental Support Group, one of the agencies that campaigned for the shut down: "(The decision) is a good sign. It only re-emphasises the importance of protecting forests over mindless development."

Perhaps, but for the people of Kudremukh (it means horse face in Kannada, and called so because of a peak shaped like one), it's the end of the road.

The Rs 1,854-crore public sector company, which made a net profit of Rs 650 crore last financial year, employs 2,000 people directly and another 2,200 on contract. Besides, there are 10,000 people who depend on either the company or its workers for survival. All of them must figure out a way to survive once the excavators go quiet this new year's day. Says Deputy General Manager K.C. Balasubramanyam, a KIOCL veteran of 27 years: "Jobs of thousands of people are under threat and that means the local economy will be severely impacted."

While environmentalists are convinced that mining has ruined the ecology around the Bhadra reserve forest—Kudremukh has been identified as one of the 18 biodiversity hotspots in the world—company officials argue otherwise. KIOCL, they point out, has planted 8.5 million trees in the mined areas, creating an additional forest area of 2.75 sq km. That apart, it has raised the height of the Lakhya dam to 100 metres to prevent overflow of silt to the Bhadra river during monsoon. "Why, even last year we were awarded the Golden Peacock Eco-Innovation Award by the World Environment Foundation," points out a senior official. "For 13 years, the so-called environmentalists kept quiet.



Sunk cost: KIOCL has assets worth Rs 4,000 crore

Life After Kudremukh

For a company that almost died at conception—it took a generous loan of \$650 million from the Shah of Iran to get it going in 1976—KIOCL has survived a number of odds. For instance, soon after it was founded, the Shah was overthrown in 1979 and funds were cut off. KIOCL struggled to survive until 1983, when it found new export markets. Amazingly enough, KIOCL may survive still—but not in Kudremukh. It has bagged a contract for prospecting mines in Orissa for low-grade hematite ores. Once the feasibility is established, KIOCL will examine investments.

Then, it has requested for mining lease at Ramanadurga in the Bellary-Hospet area in Karnataka, and has signed a joint venture agreement with SAIL for mining at Bursua, Kalta, and Taldih mines in Orissa. Meanwhile, the cash-rich company is contemplating a VRS, besides transferring some personnel to KISCO (Kudremukh Iron and Steel Company), its downstream JV with Metallurgical and Engineering Solutions that produces pig iron and ductile iron in Mangalore.

In the battle between environment and livelihoods, there are never clear winners. While the people of Kudremukh township may rue their loss of paradise, they may take solace in the fact that they are saving it for generations to come to enjoy. Some of them, surely, their own children. ■

Timed out: Employees will have to find other jobs

Somebody has to investigate their sources of funding,” adds another, hinting at corporate conspiracy.

Some politicians like H.D. Deve Gowda, former Prime Minister of India, have rallied around KIOCL. “I have visited the place and I feel that the company has taken steps to protect the environment.” He says he has written to Prime Minister Manmohan Singh to intervene. That’s unlikely to help, because this is a Supreme Court order. State Chief Minister Dharam Singh is more diplomatic and says that his government is examining if KIOCL can be supplied with iron ore from alternative sources. Others like U.R. Anantha Murthy, Jnanpeeth Award winner and activist, dismiss the suggestion as unfeasible: “For the sake of some 10,000 people, the interests of crores of others cannot be sacrificed. Let them provide compensation to the employees.”

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A Salve For Sore Muscles



SEE THAT MUSTACHIOED MAN IN THE PICTURE? That's Earl S. Sloan. An American veterinarian, Sloan, back in the 1870s or thereabouts, developed a balm that was a quick remedy for aches and pains of animals. Sloan also found that the balm he'd developed could relieve muscular pains, joint aches and sprains in humans as well. In 1903, he marketed it as Sloan's Liniment and, legend has it, its success made him a millionaire. The Sloan's brand was subsequently bought by Warner-Lambert, a company that was in turn bought by Pfizer Inc. about five years ago.

Why am I babbling about a pain balm? Well, thousands of miles away from Chillicothe, Missouri, where Sloan invented his wonder liniment, tucked away in a middle-class south Kolkata neighbourhood is a powerlifting gym where burly young men and women train daily, doing deadlifts and squats with mounds of weights. Their balm of choice: Sloan's. And, according to a friend of mine, a one-time dabbler in weightlifting of the power variety, that amber-hued strong smelling unguent is used in abundance within the portals of that dive. Before hauling weights that are a couple of times (or more) heavier than themselves, powerlifters, says my friend, smear their bodies—thighs before squats, back muscles before dead lifts—with Sloan's. The original Sloan's was composed of oleoresin capsicum and methyl salicylate, both compounds that help increase blood flow to the area where they are applied and absorbed subcutaneously through the pores of the skin. It also listed methyl nicotinate, which dilates the capillaries and further promotes circulation of blood to the affected area. When blood flow is increased, it provides a sensation of warmth to the skin and muscles, which explains why after rubbing in a pain balm, the area heats up. The Indian version of Sloan's, which comes in little jars, doesn't list the chemicals by name but instead the herbs and natural substances that probably contain them.

At my gym the trainers swear that Volini gel, marketed by Ranbaxy, has what it takes to fight aches and pains when your muscles get really sore after an intensive workout session. Volini, like Sloan's, also contains methyl salicylate. But then at the snazzy, glass and chrome joint where I pull and push the pounds, Sloan's would probably be too old-fashioned to recommend to the spandex set that flexes its muscles there. But I've tried both and must confess that Sloan's with its deep, deep heat works better than the somewhat effete Volini.

Whatever be your balm of choice, a pain reliever is an essential item for your gym-bag. Weight training grows the body's muscles by first rupturing or making tiny tears in them. These tears are "fixed" by the body which regenerates the muscle cells by making them stronger. Often, after workouts, the process of rupturing can make muscles sore. That's when you need a good pain reliever to make things better. Why this sudden discourse on pain relievers? Well, it's cold these days and a little bit of post-workout soreness can seem like a lot!

MUSCLES MANI

write to musclesmani@intoday.com

Caveat: The physical exercises described in Treadmill are not recommendations. Readers should exercise caution and consult a physician before attempting to follow any of these.

FAQS ABOUT JET LAG

WHAT IT IS: JET LAG IS THE DISRUPTION of the "body clock" or circadian rhythm. Such alterations result from general malaise and reduced physical and mental performance if travel covers more than three time zones in a single day. Experts reckon flying west to east takes a toll on one's health, as the body clock is pushed ahead, attracting maximum exposure of sunlight. The result: deprivation of sleep. Interestingly, women take more time to reset their body clock to new time zones than men.

Symptoms: The main symptoms are disturbance of sleep resulting in tiredness or loss of concentration, nausea, constant headache, dehydration, loss of appetite and irritability.

Causes: The condition is not linked to the length of flight, but to the transmeridian (i.e., east-west) distance travelled. For example, a north-south journey is least likely to result in jet lag because the executive may be able to stay in the same time zone. Dr Raman Kapur, senior consultant, Sir Ganga Ram Hospital, says, "Patients who come for treatment often feel they are still on the flight. Body imbalances make them feel giddy and minimise their routine activities." Medical experts have deemed that a recovery rate of "one day per time zone" is a fair guideline.

Treatment: Acupuncture or acupressure is a common treatment for jet lag. Says Dr Kapur: "Acupuncture primarily stresses on increasing blood circulation in brain and targets the points that are not performing well. It is also advisable to change bed time before a journey, beginning approximately three days prior to departure." Recent research shows that melatonin may reduce the effects of jet lag. However, there is controversy over the long-term use of melatonin because there have been no studies to prove its safety. It is difficult to assess the efficacy of any single remedy. However, good sleep promotes rapid recovery from jet lag.

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Adieu, N-Gage

N-Gage



NOKIA'S HONCHOS HAVE EMERGED FROM BEHIND THE shadows and admitted that their foray into mobile gaming with the N-Gage was a flop. Antti Vasara, Vice President (Corporate Strategy), has admitted that the N-Gage has only sold 2 million pieces in the three years since its launch, against the target of six million. But, mobile gamers, don't lose heart. The N-Gage QD is still on sale in India (and is the cheapest Bluetooth-enabled device from Nokia) and Nokia is taking the lessons and the software from the QD to incorporate into its future Symbian series 60 phones like the N-series. So mobile gaming is here to stay.

iPod, Therefore, iDJ

Numark iDJ

US-BASED NUMARK HAS BEEN MAKING DEVICES THAT have allowed DJs to spin their vinyl records or CDs for quite a few years. So, it isn't really surprising that they have launched a device to take advantage of the new 'it' in music, the Apple iPod. The iDJ is a basic two-channel mixer that has a three-band graphic equaliser with gain control on both channels, a microphone input with its own controls, beat matchers and some other DJ tools. It has two universal iPod connectors (that accommodate any generation iPod) and has large operation buttons for the iPod. The iDJ even borrows its design cues from the Apple product, boasting a blue-on-white colour scheme and an uncluttered layout. This device hasn't yet been introduced in India, but select electronics stores in the US feature the product for \$250 (Rs 11,250).



Bend It Like LCD

Samsung's 7-inch flexible LCD

LIQUID CRYSTAL DISPLAYS (LCDs) HAVE COME A LONG way from the Casio digital watches of the late 80s. Late last month, Samsung announced that it had developed an experimental flexible-panel LCD screen that can display broadcast quality pictures. Unlike a regular LCD screen, it is not made of glass but plastic, and the Korean company is (rightly) claiming that this is the biggest breakthrough in display technology in a long while. Even though the maximum screen size is only seven inches,



with technology moving along at the pace it does, flexible panel LCDs could find their way into a wide variety of products (cellphones, TVs and laptops, among others) in a decade or so. Of course, outdoor advertising may never be the same again.

PSP Redub

Logitech PlayGear Amp

IT'S NOT JUST THE iPod which gets accessory makers all excited nowadays. The Sony PlayStation Portable (PSP) is also getting a rash of accessories. Like this PlayGear Amp from Swiss company Logitech, which had earlier launched another PSP accessory, PlayGear Pocket. The PlayGear Amp allows you to mount your PSP on a stand and enjoy stereo sound through its quad-speakers while playing games or watching movies through Sony's portable gaming gadget for the not so-cheap price of Rs 3,495 (the PSP retails in India for Rs 19,990). The only problem: the gadget is supposed to be portable and this kind of ruins that aspect. Besides, its speaker cones are unprotected. Still, PlayGear Amp is great for watching movies, and there are more and more movies coming out for the PSP. Take that iPod Video.

COMPILED BY KUSHAN MITRA



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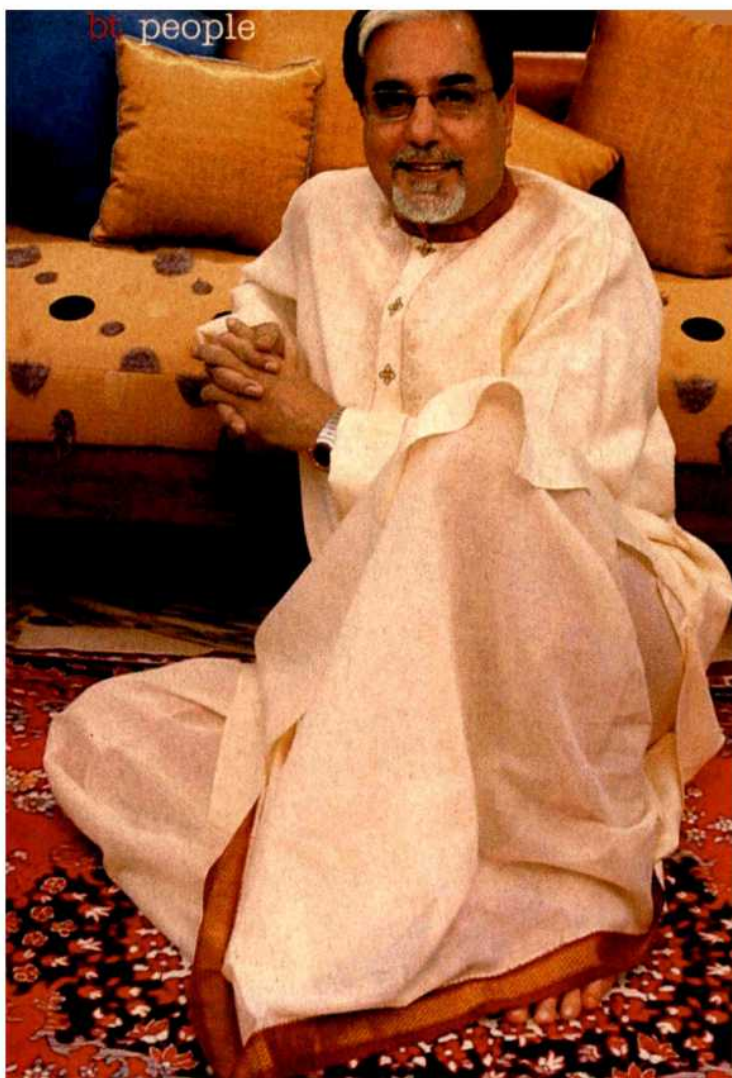
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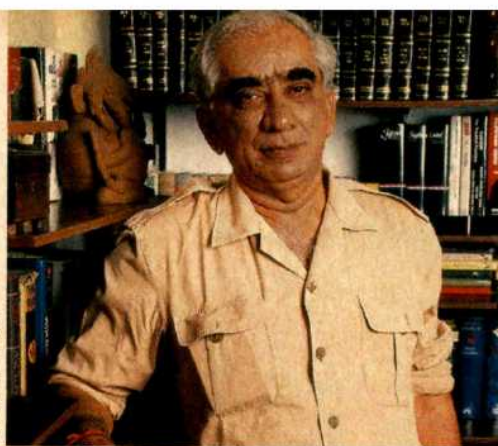
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Change Of Umpire

SUBHASH CHANDRA IS BACK ON THE CRICKET PITCH, WITH some help from the new "chief umpire" at the Board of Control for Cricket in India (BCCI), Sharad Pawar. After a protracted legal battle with BCCI, Chandra's sports channel, Zee Sports, managed to get the cable and satellite telecast rights of the ongoing India-Sri Lanka series. Sure, it was the Delhi High Court's decision (to invite fresh bids for the series and award the rights to the highest bidder) that helped, but the new BCCI President, Pawar, was good enough not to go in for an appeal—something that may well have happened had Jagmohan Dalmiya's nominee Ranbir Singh not been ousted in the recent BCCI elections. "We are entering a new era of solidarity with the BCCI," says a close aide of the Zee Chairman. But didn't Chandra say not too long back that he's had enough of cricket? He did, but simple economics must have convinced him otherwise. For instance, Zee is said to have paid Rs 19 crore to acquire the telecast rights, but it could pull in Rs 50 crore from advertising alone.

BHASKAR PAUL



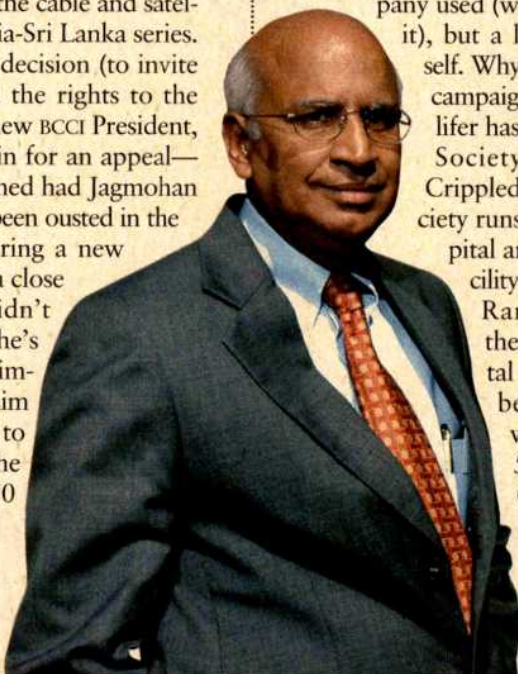
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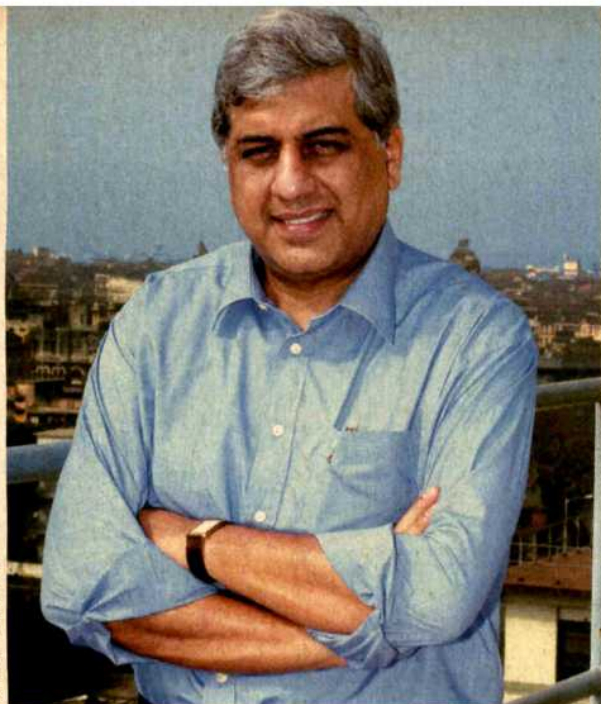
Academia Beckons

EVEN FOR A MAN WHO HAS DONNED MANY HATS, including those of the Deputy Chairman of the Planning Commission, Defence, External Affairs and Finance Minister in the Atal Bihari Vajpayee government, the latest job offer must have come as a surprise. Equestrian enthusiast and western classical music aficionado, JASWANT SINGH has been invited by UK's Warwick Manufacturing Group (WMG) to come on board as a professor. What is Singh, 67, expected to teach? Apparently, international affairs because of his vast experience in the matter. However, when contacted, Singh said he was "yet to take a decision". The soft-spoken Singh can be assured of one thing, though: A more willing audience than he's used to in Parliament.

One For The Kids

SOME TIME SOON, TATA CONSULTANCY SERVICES (TCS) head honcho, S. RAMADORAI, will put something up for auction on eBay. No, it won't be the first computer the software company used (we wonder if they still have it), but a luncheon date with himself. Why? It's part of a fund-raising campaign that the 60-year-old TCS lifer has got his firm to do for the Society for Rehabilitation of Crippled Children (SRCC). The society runs a modest children's hospital and remedial education facility in Mumbai's Haji Ali, but Ramadorai wants to help them build Asia's first hospital for children only. "It will be a 150-bed facility for which we need about Rs 50 crore," says Ramadorai. Get your cheque books out, Corporate India.





Surprising Switch

AFTER THEY'VE SPENT MORE THAN THREE DECADES AT A group company, most Tata bosses look forward to a quiet retirement, interrupted, if at all, by a rare call for counsel. But not FIRDOS VANDREVALA. In June this year, Vandrevale, 55, quit as the Managing Director of Tata Power, but continued as the non-executive Chairman of Tata Teleservices (an additional charge since 2003). But in October, Ratan Tata assumed that role at Tata Tele, leaving Vandrevale with no job. As it turned out, the IIT-Kharagpur engineer didn't have to wait too long for an offer to come along. Last fortnight, Vandrevale was appointed head of Motorola India. The man wasn't available for comment, but he can look forward to exciting times at the American telecom giant, which is moving aggressively to tap the Indian telephony market.

DEEPAK G. PAWAR



Calling It A Day

THIRTY YEARS AFTER SHIV NADAR STARTED Hindustan Computers (HCL) with five of his associates, he's now thinking of hanging up his boots. Come 2007, Nadar, 59, plans to give up the CEO's title, if not the Chairman's. He can well afford to. Already, by Nadar's own admission, he does little of the day-to-day management and focuses on larger issues, having split responsibilities for HCL Technologies' IT services and BPO businesses between Vineet Nayar, recently appointed President, and nephew Ranjit Narasimhan. His only child, daughter Roshni, is said to be more interested in dad's educational initiatives. If Nadar, worth \$2.3 billion (*Forbes*, 2005 listing), isn't afraid of stepping back into the shadow, it's also because he owns 70 per cent of HCL. So title or no title, he'll still be the boss.



SUMIT INDER SINGH

Pleasures of Pro Bono

WHEN EXECUTIVES DECIDE TO HELP A CAUSE, THEY MOSTLY INVEST either time or money. But G.K. JAYARAM, Infosys Technologies' first Chairman (1982-85) has decided to invest both, in setting up the Institute of Leadership and Institutional Development (ILID). Unlike the clients Jayaram, 65, catered to as a consultant, it is NGOs that ILID has on its radar. "We provide free management consulting services to organisations working for the poor," says Jayaram, who has invested \$1 million of his own money in the institute. Currently, ILID helps out with projects such as ex-Citibanker Ramesh Ramanathan's Janaagraha. But Jayaram, former head of Infosys Leadership Institute, wants to raise funds and hire a larger team of paid consultants to expand ILID's work. ■

CONTRIBUTED BY ARCHNA SHUKLA, ASHISH GUPTA, R. SRIDHARAN, SAHAD P.V. AND RAHUL SACHITANAND



B-school Quiz Winners: Apoorva Oza and Satyajit C. Dixit from IIM-C with Thomas Verghese, Senior Executive President, Grasim Industries (third from left) and Harsha Bhogle, Host, Acumen 2005



Debate Winners: Abhimanyu and G. Abhimanyu Ganesh of Indian Institute of Management-Calcutta making their point in the East zone finals

ACUMEN 2005

Bengal's Best

A round-up of the East Zone qualifier of the *Business Today*-Aditya Birla Group Acumen 2005, held in association with Tata Consultancy Services.

IT'S A ZONE OF COMFORT FOR INDIA INC'S GENEXT. When engaged, the students of business in Kolkata enjoy a hot discussion on capitalism and profits, and debate why Marx and markets can co-exist. They choose a range of gurus and brands to rattle off their various theories: From Adam Smith to Ayn Rand; Karl Marx to Keynes; Levis to Lever. So, when the gong struck for the East Zone Debate Final round of the coveted *Business Today*-Aditya Birla Group Acumen 2005 at the Royal Bengal Hall of City Centre, Salt Lake, a vibrant packed-to-capacity audience in the 300-seater auditorium enjoyed every bit of the debating skills of some of the best brains in the region. The topic: "Peter Drucker's right, profits will one day cease to be the corporation's *raison d'être*".

The jury comprising Ashu Arora of ITC Ltd, Indranil Sarker and Probir K. Niyogi from TCS, and Pallav Moitra of *Business Today* was quite impressed with the arguing skills of Abhimanyu and G. Abhimanyu Ganesh of Indian Institute of Management, Calcutta. The IIM-C team was declared winner of the East Zone debate.

This was not withstanding XLRI Jamshedpur's (XLRI fielded Anshul Khandelwal and Gauri Bajaj, the only female contestant) impressive performance in driving home the point that all stakeholders of a company suffer if it is not driven by profit. They argued that the capability "to do" comes only from the capability to earn, raising the pertinent question: "If it is not profit, then what else?" For the record, the XLRI team finished as the First Runner Up.

The preliminary rounds were equally interesting, where the topics were: "Niche players have no future" and "India's software companies can never create a Windows". The semi-final topics centred around Indian capabilities in the fast changing global scenario: "India will overtake China" and "Made in India will never be a global brand".

There was, however, at least one issue on which there was no debate. Host Harsha Bhogle hoped that the best business brains of tomorrow would come up with more examples and trends from India and China.

Be it the debate or the final round of quiz or





B-school Alumni Quiz Winners: Subhendu Roy of ICICI Bank and Tathagata Chatterjee of Rediffusion DY&R cherishing their moment of glory



Audience Grand Prize Winner: A delighted Manisha Mishra receives the winning bike key from Harsha Bhogle

PHOTOGRAPHS BY SHAMIK BANERJEE

the Alumni Quiz contest, they were interspersed with audience questions, teasers and hourly prizes through a draw of lots. The first audience question (Which country first banned e-mail in government use?) was almost going unanswered when the right answer came from a veteran: France. He won a gift voucher from Van Heusen for his effort.

Soon Harsha Bhogle was on familiar ground, coming up with his quick posers to lighten the atmosphere. Try this sampler: "Which organisation began as informal security groups 'protecting' the huge citrus estates outside Palermo in the early 19th century?" One of the teams tried its luck with a guess—FBI. Despite Bhogle's cue, none came close to the interesting answer: The mafia.

Like in debate, the quiz contest was also won by the IIM-C team. The winners: Apoorva Oza and Satyajit C. Dixit. Suvrajit Ganguly and Avik Sengupta of the Indian Institute of Social Welfare and Business Management (IISWBM) finished the first runners up.

The alumni teams proved that they were second to none in keeping up their lead, even while competing in a round of quiz. Subhendu Roy, an alumnus of IIFT, Delhi, and working with ICICI Bank, and Tathagata Chatterjee, IISWBM alumnus, currently with Rediffusion DY&R, won the Alumni Quiz title in a tie-breaker (the first such instance in *BT* Acumen history). The team comprising Jayashree Mohanka of Eveready (from IIM-C) and Satya Kalyan Mohanty of HCL (from Globsyn Business School) were in the second spot. In the slog

overs, the team comprising Gautam Ghosh (an alumnus of IIM-C, now working with the International School of Business & Media) and Nishant Singh (an alumnus of IRMA, Gujarat, currently with ICICI Bank) turned the tables.

It's not an easy task to unbundle *Kanban*, Bajaj Autorickshaw, Isuzu and Scion under a single theme. But Gautam Ghosh did it with élan. The moment Bhogle finished his question: "It is an inventory strategy implemented to improve the return on investment of a business by reducing in-process inventory and its associated costs. The process is driven by a series of signals—

usually simple visual signals, such as the presence or absence of a part on a shelf. Name it?", Ghosh shot back: "*Kanban* (or Just-in-Time). And is the theme, by any chance, Toyota?". The inventory strategy *Kanban* was developed by Toyota. Daihatsu and Isuzu are Toyota owned/controlled and Scion is

a Toyota brand. The Just-In-Time answer fetched Ghosh's team 35 points. The round ended in a tie among the three teams. The fourth team comprising G. Mohan of Guidestar India and Ajay Krishnan of Wipro Technologies got out of the competition by then. In a display of true sportsmanship, the losers were the first to congratulate the winners after the tie was broken.

The main spirit of the day, as Bhogle described, was not just debating or quizzing, but taking part in a "great fun-filled day". To prove the point, IIM-C's Manisha Mishra, who doesn't know how to ride a bike, got the key of a Yamaha bike, in a lucky draw. ■

The main spirit of the day was not just debating or quizzing, but taking part in a great fun-filled event

BUSINESS TODAY BALLANTINE'S PRO-AM OF CHAMPIONS

Teeing Off, In Style



FOR THE FIRST FIVE DAYS OF THE WEEK, corporate czars compete in the boardroom, but on Saturday, the same intensity was on display at the Karnataka Golf Association, where they slugged it out over 18 holes, at the Business Today Ballantine's Pro Am of Champions, held at Bangalore's Karnataka Golf Association course. Associate sponsors for the event were Philips and ITC-WelcomGroup, with prizes sponsored by American Airlines, Ford, Marriott Hotels. No quarter given and none asked for in a closely fought competition, as corporate honchos teed, drove, wedged and putted their way to the grand finale in Delhi and the chance to play with top notch professionals. Nearly 100 execs turned up on a cold windy Saturday morning to test their skills against their peers in what turned out to be an absorbing morning of golf.

Played on the Stableford Format (points are awarded to the players for the score they make in relation to the par of a hole), this event saw some serious talent on show, with David D'Souza, managing director of Garden City Fashions, winning the Handicap category (0-8) with a scorching round of two-under 70. The handicap category (9-16) saw a five-way tie, with President of KGA, Rohith Shetty; Captain of KGA, BNS Reddy; Director, Eagleton, Chetan Meda; Director,

1. **T Sukumar** - GM, Finance, Epson India, Winner in Individual category 17-24 handicap
2. **Indur Hirani** - Director, UB Global, Winner in Individual category 9-16 handicap
3. **G.R. Vishwanath**, former Cricketer, teeing off from the first hole at the BT Pro-Am
4. **Nikhil Sen**, former CEO, Britannia, swinging it right

Transteel, Hari Achanta; and Director, UB Global, Indur Hirani all tied at 36 points. Indur Hirani won on a countback. In the Handicap category (17-24) T Sukumar, GM at Epson India, won easily, scoring 37 points. All three winners in these handicap categories will be invited for an all expense paid trip to compete in the finals of the Pro-Am to be played in Delhi in March 2006, where they will get a chance to watch (and get tips from) some of India's best pro golfers. The carrot for the national prize winners is two Delhi-Chicago business class tickets courtesy American Airlines and a complimentary stay at the Marriott Hotels in Chicago.

Apart from the individual competition, there was a team event where four players were drawn randomly to form a team and the best three scores of the team were counted to determine the team score. This event

was won by the team comprising David D'Souza, Hari Achanta, Austin Roach and B Ashok, with a team total of 102 points. The Runner's Up award was claimed by Chetan Meda, BNS Reddy, Desmond Rice and SK Ahmed with a team total of 100 points.

While golfers took five hours to tackle the course, they had a chance to land several juicy prizes, including a Ford Endeavour for a hole-in-one, which remained tantalisingly out of reach despite everyone's best efforts. The skills awards for the "longest drive" was claimed by Viraj Suvarna with a drive of 256 yards on the 9th hole, while the "closest to the pin" award on the 4th hole was claimed by Dr Rohith Shetty who hit it within five feet.

Despite the intense competition on the course, corporates also took the chance to catch up with some old pals and make new acquaintances. "This is a challenging event that pits us against the best in our category and helps us improve our own game. My handicap has itself gone down from 24 when I first played this event to four today. That apart, you also spend 2-3 hours on a course and this helps build friendships," says Vishal Dhupar, managing director, Symantec India. It wasn't hugs all around, insists Srinivas Uppaluri, head global marketing of Infosys, who said, "Competition was intense even though we weren't meeting in a boardroom."

Sumet Lamba, EVP (Marketing), Seagram's India said, "Ballantine's, world's 3rd largest Scotch brand, is a recent addition to the Pernod Ricard portfolio. The Business Today Ballantine's Pro-Am of Champions is the perfect platform for Ballantine's as it gives corporate leaders and Indian Professional golfers, who form an important segment of our target audience, an opportunity to experience Ballantine's."

Pavan Varshnei, Publishing Director, *Business Today*, said, "The winning CEOs from each of the four regions find it a rewarding experience to watch the pros up close, playing some serious golf during the national finals in Delhi and take advantage of the opportunity to get tips on improving their game. We are celebrating 11 years of golfing excellence this year and hope that this championship continues to contribute in making the game more rewarding."

After a day of hard-charging highly-competitive golf, corporates got a chance to unwind in the evening's prize distribution event, with a performance by Xenon, a multi-faceted dance troupe. Prizes were distributed by Varshnei with the GM of ITC Windsor Sheraton, Dhunji Kavarana.

Fittingly, the winner, David D'Souza, got the loudest applause. The next round of this event will be held in Kolkata in February 2006 followed by Mumbai, with the regional and finals of the Pro-Am to be played in Delhi in March, 2006. ■



5



6



7

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5. **Winning Team:** (L-R) David D'Souza, Austin Roach and Hari Achanta
6. (L-R) Mr. Dhunji Kavarana, GM, ITC Windsor Sheraton, with the winner in Individual Category 0-8 handicap, David D'Souza and Pavan Varshnei, Publishing Director, *Business Today*.
7. **Runners Up Team :** (L-R) Chetan Meda, BNS Reddy, SK Ahmed and Desmond Rice are all smiles as they pose for a team photograph.

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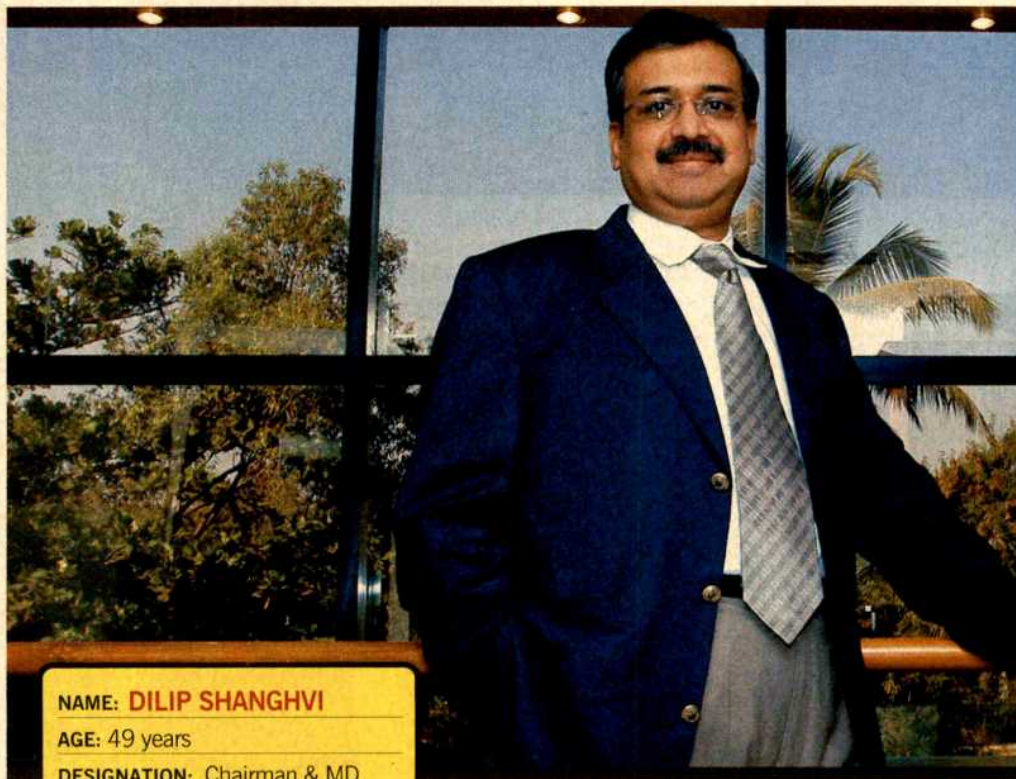
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DESIGNATION: Chairman & MD
COMPANY: Sun Pharmaceuticals

UMESH GOSWAMI

A Low Profile Achiever

IT HAS BEEN AN INCREDIBLY BUSY PERIOD FOR SUN PHARMA, AND THE COMPANY'S Chairman & Managing Director, Dilip Shanghvi, is the first to admit that. The reason: a spate of acquisitions over the last few months. He has bought out Valeant Pharma's bulk drugs and formulation plant in Hungary and its formulation plant in the US. And in the last week of November, he placed a \$23.15-million (Rs 104.18-crore) bid to buy the assets of the US-based Able Labs. Says Shanghvi, who prefers to keep a low profile: "We want to become more international in our approach, and over the next 10 years, we want to bring a host of innovative patented products to the market." Sun Pharma, which went public in 1994, closed 2004-05 with a topline of Rs 1,307 crore and a net profit of Rs 327 crore. The corresponding figures for the first half of this fiscal are Rs 917.4 crore and Rs 239.35 crore, respectively. The company's goal: consistently focus on specialty products and innovation to fulfill unmet patient needs. Shanghvi's leadership style is based on empowerment. "I always focus on growing talent within the company and I think it is important to share the credit for good work. We may not have too many heroes in our company but we certainly have people who work very well together," he says. His punch line: "I am comfortable with people who make mistakes so long as they can learn from them." Every successful organisation has a robust leadership and Shanghvi says his most important job is to ensure that his team is made up of good players. "My mantra is to focus on the people who have the ability to learn," he says. Clearly, he's doing a good job of it. No wonder, he's been a regular on the *Forbes* list of billionaires for some years now; his stake in his flagship is worth more than \$2 billion (Rs 9,000 crore). The B. Com graduate from Kolkata's St Xavier's College has sure come a long way. ■

KRISHNA GOPALAN

When two yarns mate...

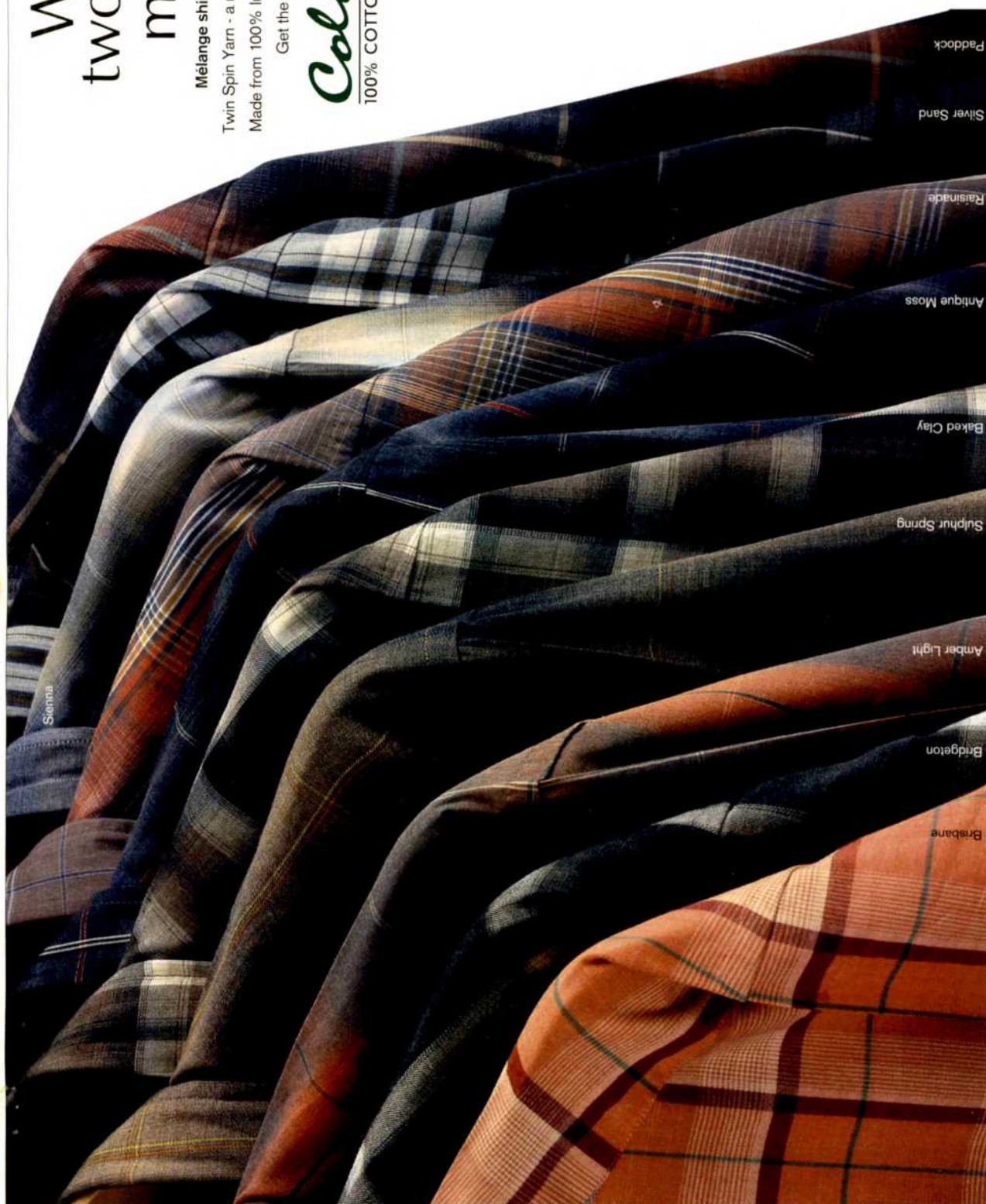
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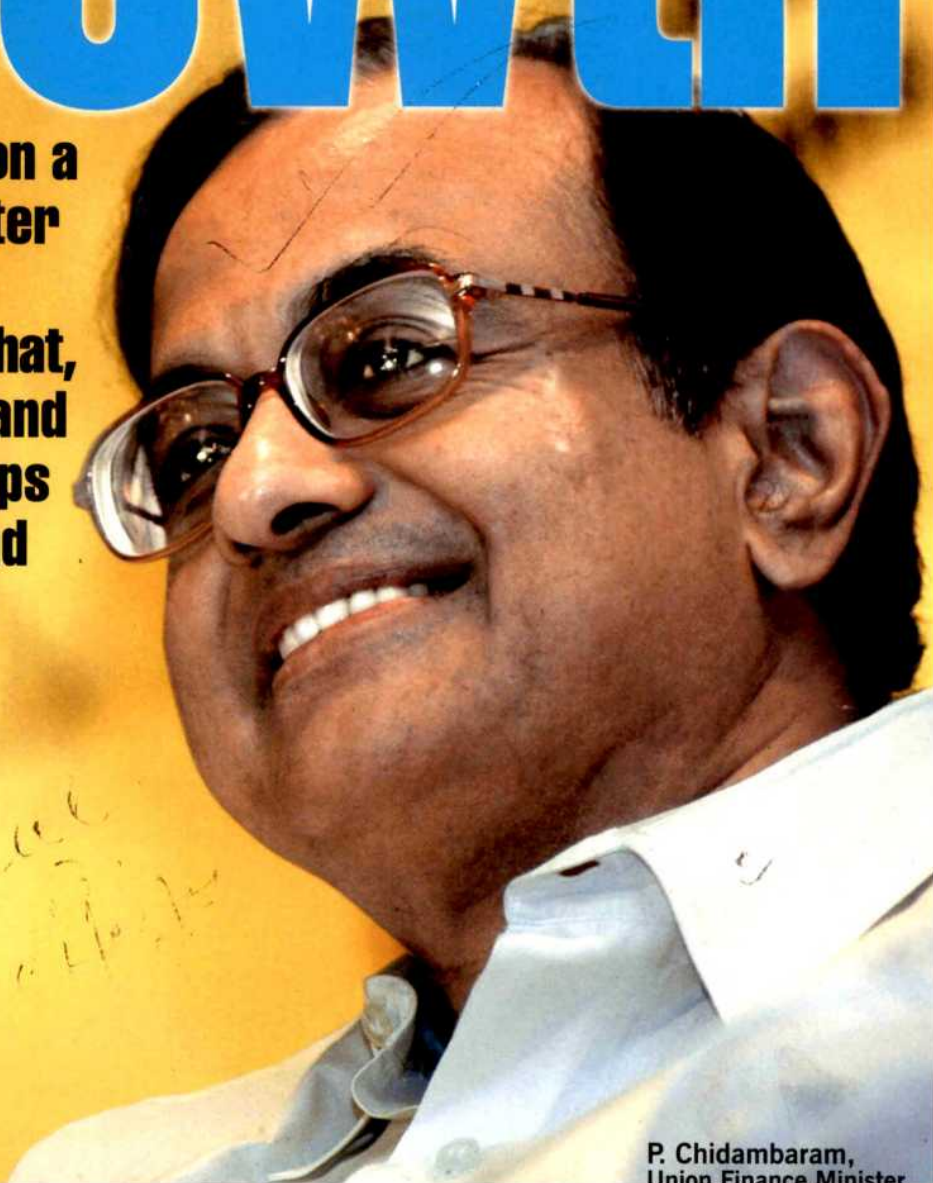
PUSHING FOR Growth

With the economy on a roll, Finance Minister P. Chidambaram presents a Budget that, with a push here, and a nudge there, keeps everyone happy and targets growth.

BT-Ernst & Young
Sectoral Analysis

Investing:
After The Budget

A Budget For
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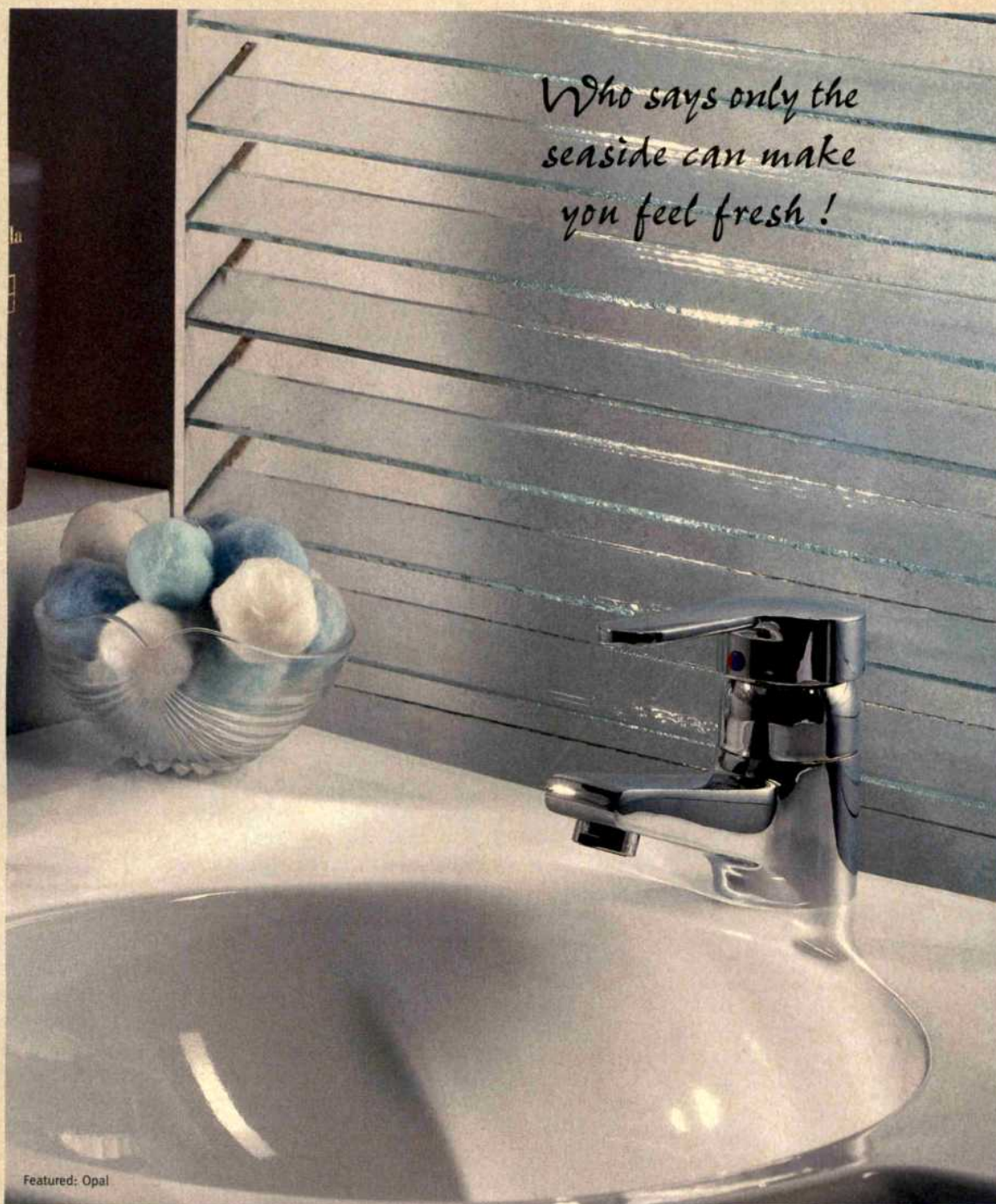
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Budget Special, March 2006.

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From The Editor

REMEMBER A TIME WHEN THE BUDGET USED TO BE the biggest event in a business journalist's calendar. The Budget documents themselves were, literally, worth their weight in gold and regional publications, even the regional editions of some national publications, used to send a man down to Delhi, usually by train, to pick up the documents, and then fly back. These days, the Budget is not as make-or-break as it once used to be; it is more than a mere presentation of the government's financial statement, but it is less than the vision and mission statement of economic policy that it was once seen as. As for the documents, they are available on the net, on the website of the Finance Ministry in a format that lends itself to easy downloads. India's Finance Minister P. Chidambaram himself concedes this point, adding that this is just the way it should be. "There will be no more big bang Budgets," he says in an interview he gave this magazine a day after he presented his Budget for 2006-07 (see page 14).

The diminishing relevance of the Budget (as a statement of economic policy) is a good sign. In some ways, it reflects an economy's self-confidence. Today, most Indian companies believe that their future is in their own hands, and that it cannot be influenced by some *deus ex machina*. If the trait of not making a bigger thing of the Budget than ought to be, is sign of a developed economy, then India is definitely on its way there.

While that may be the case, this Budget merits a close look because it is one presented by a government in its mid-stride (this is the third Budget of a government that will probably present five) and is, therefore, likely to reflect its real economic ideology. The good news is that despite its emphasis on rural and agricultural reforms (which are much needed), Budget 2006 is a fairly progressive one. It doesn't impose new taxes, actually announces a deadline for a common national goods and services tax, and has nothing that could possibly offend anyone. Companies, which largely wanted the minister to maintain status quo, will be happy that he has; consumers can look forward to cheaper cars courtesy a reduction in excise duty; and investors, domestic and foreign alike, can reassure themselves that the India story is well and truly on.

There are other things the Budget does, which we have tried to capture in an analysis of its impact on taxes and sectors which has been done by our knowledge partners for this issue, Ernst & Young. Happy reading.



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EDITORIAL

Two Cheers For Chidambaram

IT'S EASY ENOUGH TO MOVE FAST WHEN YOUR sails catch the high wind. That's precisely what Finance Minister P. Chidambaram has done. Buoyed by an 8.1 per cent growth in gross domestic product (GDP), a fiscal deficit of only 3.8 per cent and rise in the savings rate to 29.1 per cent of GDP, he called upon Indians to build castles in the air, aka a double digit growth rate.

This is not really as fanciful as it sounds. The massive allocation of Rs 50,000 crore for the United Progressive Alliance's eight flagship social sector schemes, the projected 25 per cent increase in farm credit to Rs 1,75,000 crore and the government's enthusiasm for the public-private partnership (PPP) model of development have all the makings of a New Deal that can truly bring the so-called Bharat in sync with those parts of India that are shining bright. Properly implemented, these schemes can put huge purchasing power into the hands of people living in rural India, thereby lifting their standards of living and further fuel the consumption boom that is bringing joy to corporate captains and lay investors alike. This will be in keeping with the spirit of the Budget, which, by cutting and rationalizing excise and customs duties across the board, encourages consumption and, consequently, growth.

But the big positive in Budget 2006 is the reduction in the fiscal and revenue deficits. How did the Finance Minister do this? Well, fiscal rectitude was definitely a factor, but the really important reason was the burgeoning denominator. The expanding GDP figure dwarfed the numerator and produced the (more) favourable result. That's what *Business Today* has always been advocating: remove the bottlenecks to growth, trust the dynamism of Indians and the deficit will take care of itself.

But Chidambaram's 'don't fix it if it ain't broke' maxim has a minor flip side as well. Last year, he had

introduced two terrible levies, the Fringe Benefit Tax and the Cash Withdrawal Tax. He had a chance to make amends and withdraw them this year. Instead, he forcefully justified their imposition and, save for some minor tinkering with the former, left them as they were. On the positive side, the Finance Minister has not touched either Income Tax or Corporation Tax rates and has not imposed any new levies. This may disappoint the minority that was clamouring for some relief on these fronts, but has been welcomed by most others. A stable tax regime is a necessary prerequisite for a booming economy and that's precisely what

Chidambaram is providing. The expected lowering of prices across a range of consumer and domestic goods is likely to put more money in individual wallets and stoke the consumption boom that is providing the economy with its steroids.

But there's disappointment in store for those looking for a bigger picture. The truth is that except for an announcement that a Goods and Services Tax will be in place by 2010, there's none. This is in tune with the recent trend towards delinking the budgetary and policy processes. That is how things work in most of the developed world—the Federal Reserve Chairman's comments on the US economy are more eagerly

awaited than those of the Treasury Secretary—and that's the path India seems to be treading.

In sum, the Finance Minister deserves full credit for riding India's growth momentum and for not doing anything to upset the apple cart. Playing Devil's Advocate, it can be argued that he missed a trick by not using the momentum to push through some reform measures—in labour, financial services and retail, for instance—that would have provided more ballast for the years ahead.

It's two cheers to Chidambaram, then, shall we say? ■



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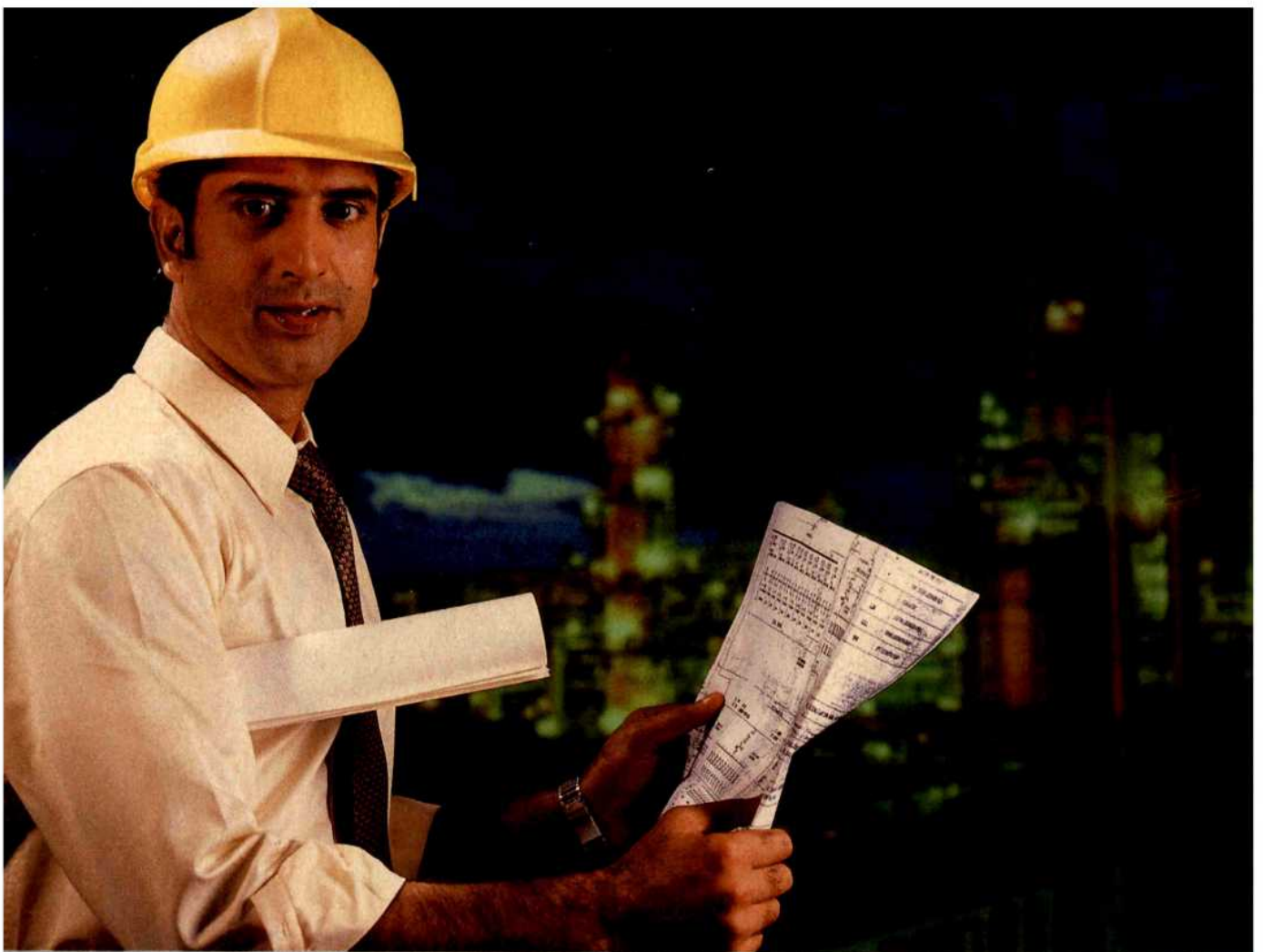


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SHOME BASU

Pushing For Growth

With the economy on a roll, Finance Minister P. Chidambaram presents a Budget that, with a push here, and a nudge there, keeps everyone happy and targets growth. **ASHISH GUPTA**

FIVE MOST REFORMIST ASPECTS

- Reduction in the peak customs duty rate from 15 to 12.5 per cent
- De-reservation of 180 items from the list of products that can be manufactured only by the small-scale sector
- FII investments in G-secs up to \$2 billion
- Announcement of a national Goods and Services Tax by April 1, 2010
- The promise of short-term credit to farmers at an interest rate of 7 per cent



FM Chidambaram:
Not a dream Budget, but
then no one's complaining

INDIA'S FINANCE MINISTER P. Chidambaram, who turned 60 in September last, is famous for his spotless *veshtis*, liked or despised (depending on which side people end up on in their interactions with him) for what some see as over-punctiliousness, and renowned for his repartee. There is, however, something going for the man that makes him *sui generis* as far as Finance Ministers, even politicians, go. The point is this: India Inc. believes Palaniappan Chidambaram can do no wrong. It could be because he is a Harvard MBA (he is also a lawyer) and thus qualifies, as far as corporate India is concerned as 'us', not 'them'. It could be because he is from the Chettiar community, famous for its expertise with numbers and its business-orientation. Or, it could simply be because of the Budget he presented on February 28, 1997, which is now famously referred to as 'Dream Budget'. Whatever be the origin of the belief that Chidambaram is Mr Perfect as far as Finance Ministers go, it exists; and is strong enough

for people to commend his Budgets even when there is nothing spectacular about them.

Then, the man is twice-blessed. India Inc.'s unshakable faith in him—this, despite the Fringe Benefit Tax, a levy on perquisites that was introduced in Budget 2005 and which has made life difficult for companies—is complemented (and has been for at least the past two years), by a good showing by companies, and by the economy as a whole. When people think back of 2005, even today, when the year is not that long past, all they are likely to remember is a growth (in GDP) of over 8 per cent, a booming stock market, and a growing popularity of the India story. History will, therefore, decide that Budget 2005 must have been fairly progressive and growth-minded. This Budget, Budget 2006, will likely be treated the same way.

The It-ain't-broke Approach

In many ways Budget 2006 is not a path-breaking Budget. It lacks innovations and bold policy statements, but it is also (thankfully) bereft of

nasty surprises. Like the last two budgets he presented as Finance Minister in the United Progressive Alliance government, this one too focusses primarily on the common man, and is replete with measures targeting poor and marginal farmers. And in a year in which at least four states will go to the polls, it does enough to boost popular sentiment—not increasing personal income taxes, and reducing duties on, and, thereby, prices of products such as cars, *vanaspati* oil, aerated drinks and footwear.

For those who believe that no news is good news, Chidambaram's Budget, especially its tax proposals, must come as a pleasant surprise: no new taxes, no change in tax rates, some minor tinkering with the Minimum Alternate Tax, an almost 2 percentage point increase in the service tax rate, and some rationalisation of the FBT regime.

For others, who believe the Indian economy is at its strongest ever, Budget 2006 will look like an opportunity wasted. Former Finance Minister Yashwant Sinha is one such; he describes this Budget as

FIVE LEAST REFORMIST ASPECTS

- No major changes, only some cosmetic tweaking in the Fringe Benefit Tax
- An increase of 2.5 percentage points in Minimum Alternate Tax to 10 per cent
- An increase of 25 per cent in the Securities Transaction Tax across the board
- No move to reduce under-recoveries of oil refining companies
- Not even a mention of the D-word, disinvestment

FIVE THINGS THE FM COULD HAVE DONE

- Provided more sops for R&D activity in the pharma and biotech sectors
- Experimented with capital account convertibility
- Announced a new, more contemporary service tax regime
- Announced that amendments would be made to the Essential Commodities Act
- Widened the scope of Settlement Commission to cut tax-related litigation



DEEPAK G PAWAR

BUDGET 2006's MOST SIGNIFICANT URBAN REFORM

THE NATIONAL URBAN RENEWAL MISSION (IT IS ACTUALLY CALLED THE JAWAHARLAL Nehru National Urban Renewal Mission) is alive (it was launched in December 2005) and well. Finance Minister P. Chidambaram announced a grant of Rs 4,595 crore to the mission in Budget 2006 and said that the Bombay Metro (rail) and Bangalore Metro (rail) projects would be among the first taken up by it. For urban residents who have grown used to inadequate infrastructure (poor traffic management, worse drainage, inadequate power and water and the like), the mission holds forth the hope that their cities will truly reflect their standing as economic powerhouses.

“timid”. Those who expected Budget 2006 to announce the introduction of a new Income Tax Bill (as was promised in Budget 2005) or a further rationalisation of the tax structure, may agree with him.

Doing It Right

That may be one way of looking at it. The other is to look at Budget 2006 in the right context. It is the economic policy statement (and note of accounts) of a rainbow

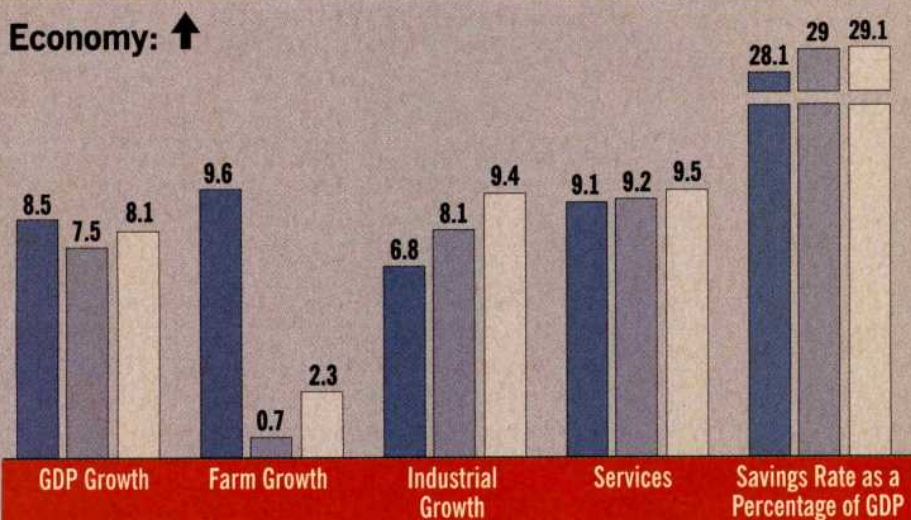
coalition that depends for support on the communist parties. It also happens to come in a year when several states are going to the polls. Given that, Chidambaram must be credited for not doing anything to upset India Inc. or to change the emerging worldview that India has what it takes to be an economic superpower and that those companies not participating in the India story are doing so at their own peril. Despite the profusion of sops to the underprivileged in Budget 2006, no one from corporate India has called it reformist or anti-progress. Indeed as R. Seshasayee, Managing Director,

Ashok Leyland puts it, “It is a responsible Budget where the agenda of social justice has been allowed to ride on the ongoing programmes.”

Even on the tax front, say experts like S. Madhavan, Executive Director, PricewaterhouseCoopers, Budget 2006 is a major milestone because it mentions that India will move to a national, integrated Goods and Services Tax (GST) on April 1, 2010. “The proposal to increase the service tax rate to 12 per cent is a step towards the convergence of the service tax and CENVAT rate, applicable respectively on services and goods, at 16 per

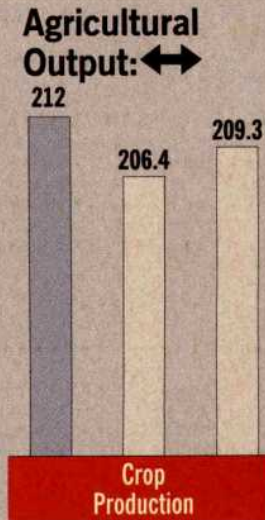
A BOOMING ECONOMY

Economy: ↑



Figures in per cent ■ 2003-04 ■ 2004-05 □ 2005-06
The UPA government presented its first budget on July 6, 2004

Agricultural Output: ↔



Figures in million tonnes are crop production

BUDGET 2006's MOST SIGNIFICANT RURAL REFORM

IN A BUDGET AS REPLETE WITH SOPS FOR RURAL AND AGRICULTURAL AREAS AS Budget 2006 is, it is bound to be difficult to identify the one thing that could change the economic landscape of rural India. Still, Finance Minister P. Chidambaram's proposal to create a committee that will look at how poor and marginal farmers can be included in the economic mainstream is a worthy contender for the distinction of being Budget 2006's most important rural reform. Capital, or the lack of it, is one of the most pressing problems affecting the agricultural sector and if this committee can find a way out, it would improve the lot of India's farmers.

FIVE MAJOR REVENUE EARNERS FOR THE GOVERNMENT

	2005-06 Budget Estimates	2005-06 Revised Estimates	2006-07 Budget Estimates
UNION EXCISE DUTIES	1,21,533	1,12,000	1,19,000
CUSTOMS DUTIES	53,182	64,215	77,066
CORPORATION TAX	1,10,573	1,03,573	1,33,010
INCOME TAX	66,239	66,239	77,409

Figures in Rs crore

Source: Budget document



cent," he says.

The manufacturing sector has no reason to complain either. Budget 2006 focusses on those

industries that can create a significant amount of employment such as textiles, food processing, petroleum, chemicals, and

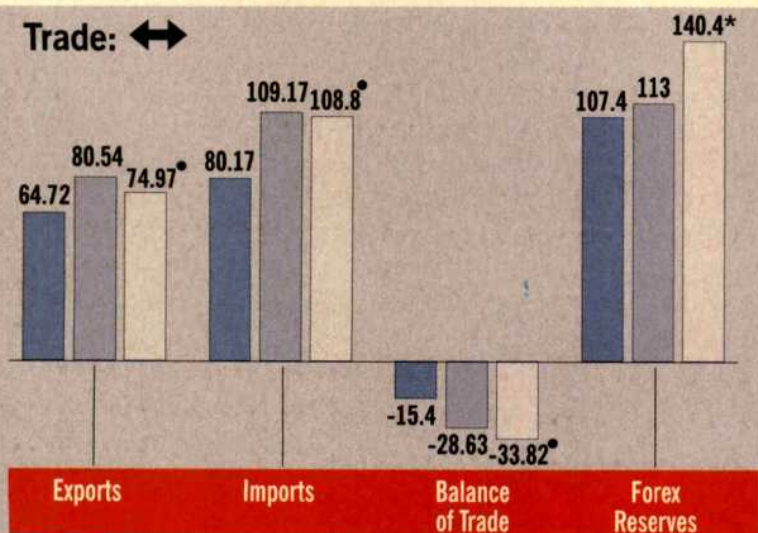
petrochemicals. For instance, the textile industry stands to benefit from the increase announced in the Technology Upgradation Fund and the proposal to create 25 integrated Textile Parks. O.P. Lohia, Managing Director, Indo Rama sees the Budget providing "immense growth momentum" to the textiles sector.

Then, there are those industries that have benefited from reduced levies on their products which will, in turn, boost demand and,



PINAKI PAUL

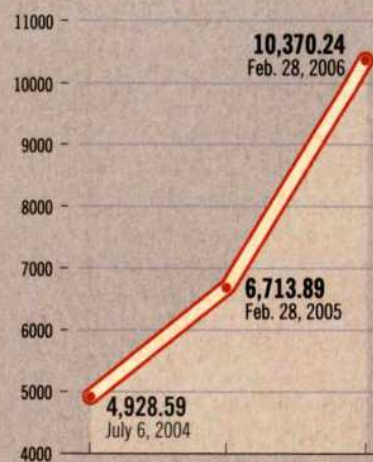
Trade: ↔



Figures in \$billion *For the week ended Feb. 10, 2006
● For the period between Apr. 1, 2005 and Jan. 31, 2006

Source: Budget document

Stock Market: ↑



Figures are BSE Sensex closings

consequently, their sales volumes. Cars is one such (excise duty has been reduced by 8 percentage points). As is processed foods. And footwear priced under Rs 750. "We will pass on the entire benefit to consumers," says Jagdish Khattar, Managing Director, Maruti Udyog.

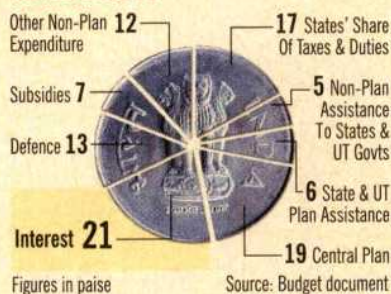
Even the stock market, that bellwether of sentiment, had no reason to be unhappy with Budget 2006. On February 28, despite a small fall after the announcement of a 25 per cent hike in Securities Transaction Tax (STT), the market recovered as no major damage was done to disturb the sentiment. And the BSE Sensex ended the day at 10,370.24, up 88.15 points from its previous close. "As far as equity markets are considered, it (Budget 2006) was a non-event," says Hemang Raja, Managing Director & CEO, IL&FS Investsmart. "With the economy growing at 8 per cent, buoyancy in the equity market and players getting used to the current system, it was expected that there

Finances At A Glance

RUPEE COMES FROM



RUPEE GOES TO



Figures in paise

Source: Budget document

wouldn't be any major burden or disappointment from the budget." "The increase in the FII limits in bonds and the introduction of a

unified exchange for bond trading will attract requisite foreign investment in the Indian debt market. With the more glamorous equity markets attracting all the attention in the past, the debt market will see some action in future," adds Ashok Wadhwa, Managing Director, Ambit RSM.

In its own way—by moving agricultural credit to the priority sector, for instance—Budget 2006, then, does its bit for growth. Industry has largely been left alone to do what it has been doing exceedingly well these past few years; a road-map of the eventual tax regime that India will have has been presented; and agriculture, which desperately needs sops if India's growth story is to prove inclusive, has been given them. Will 2006-07 outdo 2005-06's GDP growth of 8.1 per cent? It well could. ■

ADDITIONAL REPORTING
BY SHALINI S. DAGAR AND
MAHESH NAYAK

FOUR QUESTIONS ABOUT BUDGET 2006

What's happened to Fringe Benefit Tax?

Well, it is still around, and the Finance Minister has definitely fallen short of fulfilling the industry's wish #1 (a complete roll-back), even wish #2 (exempting most heads currently considered). He has promised to review the tax sometime in the future but in his Budget speech, stressed that it was based on the principle of equity. That it is.

Is India in better fiscal shape than it was last year?

Yes and No. The Finance Minister has met, nay exceeded, his Fiscal Responsibility and Budget Management targets. The revenue deficit is expected to fall to 2.1 per cent of GDP in 2006-07 from 2.7 per cent this year; and the fiscal deficit from 4.3 per cent to 3.8 per cent. However, Standard & Poor's has indicated that India's sovereign ratings will be upgraded only when the country manages to reduce its debt to GDP ratio, currently between 8 per cent and 9 per

cent. For that to happen, Chidambaram's fiscal prudence has to exceed to the states.

Is it curtains for disinvestment?

It definitely looks that way. With the government's revenue collections on an upswing, there is no economic necessity for it. There is, of course, a larger question about whether the government should be in business. But given this government's dependence on the communist parties, it would prefer not to answer that question.

Do we know what is happening to the education cess?

Yes, the government will transfer the funds collected to a programme called Prarambhik Shiksha Kosh, a non-lapsable fund (the initial transfer is an impressive Rs 8,746 crore) that will fund elementary education and mid-day meal schemes.

SHALINI S. DAGAR

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Infrastructure Deal of the Year – Gangavaram Port for APAC Region

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BLOOMBERG Ranking 2005 - India

Number of Capital Markets Issuances

688 and still counting - Since 1989 as per Prime Database

Fund Mobilization for the year 2005

Rs. 1739.61 billion and still counting

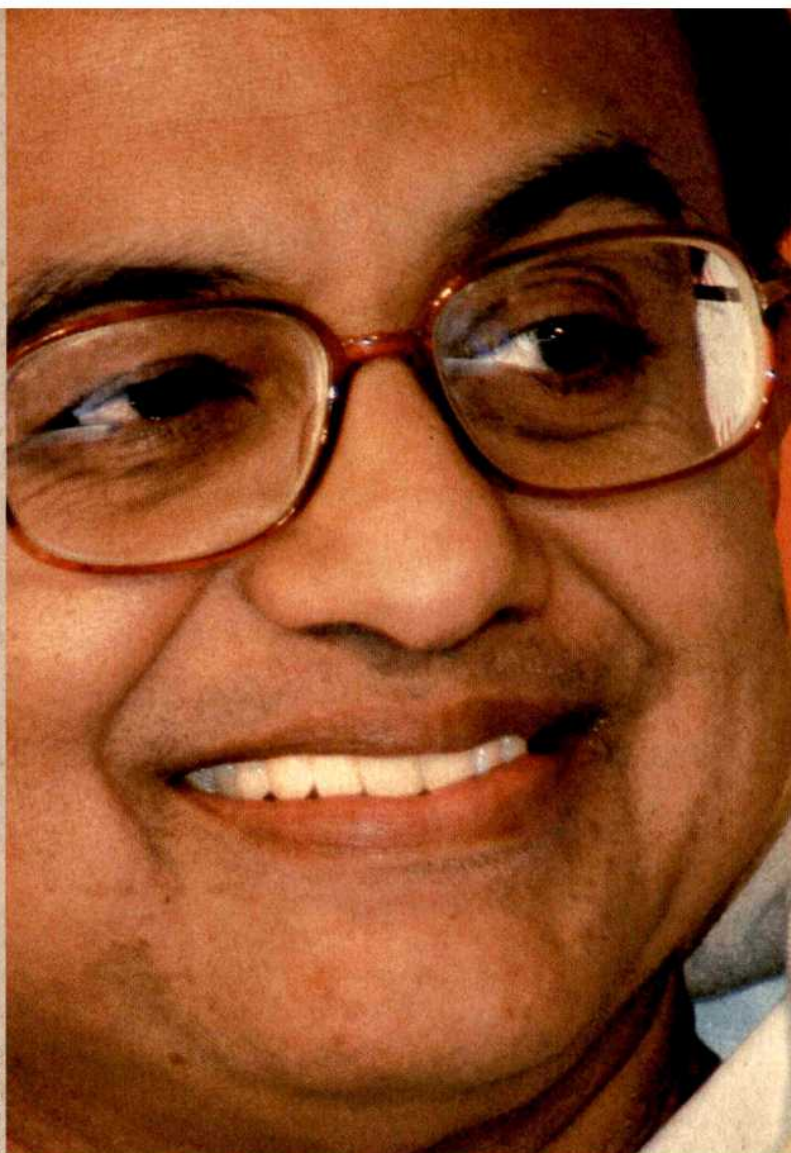
Ranked 1st- Mandated lead Arrangers. Region: Asia Pacific

Thomsons Project Finance International 2005

A new year begins and there are
several challenges for the nation.
Needless to say, we will be there.



Your Expert Partner



“There Will

reaction to this Budget has been slightly muted in the media. Some sections have been saying this is an election year Budget, with five states going to the polls and this may have bound you from doing any big-bang things in the Budget. What would you say?

You see the urban, English-speaking upper-middle class is your reader and viewer. They expect big-bang announcements and pyrotechnics in the Budget. But that's not all of India. This Budget addresses real issues of a large part of India which is agriculture. It addresses issues like improving rural infrastructure, investments to be made in industries that have the potential to throw up huge job opportunities... All that, I can see, is not headline-making news, but I think they are the kind of things that are necessary to build a strong India.

(This Budget)... is not in character with the PC Budgets, the big-bang Budget... You can't do Big Bangs every year. The Big Bang tax reform on the direct taxes was done once in 1997 and again in 2005. You can't do it every year.

How would you characterize this Budget? Is it continuity, consolidation or coalition economics?

It's a Budget that bets on growth and lends a helping hand to agriculture.

You've got a lot of praise for things that you have not done wrong rather than things that you have done right in this Budget...

The question is what is right and what is wrong. The section that is giving you that feedback thinks that the right thing to do is to cut their taxes or give them tax benefits, give them tax concessions. But that section, I'm sorry, is not concerned

“The urban, upper-middle class expects big-bang announcements. But that's not all of India”

A DAY AFTER B-DAY, Finance Minister P. Chidambaram appeared relaxed and satisfied with his third Budget in a row. Summing up Budget 06-07 as one that “bets on growth and lends a helping hand to agriculture”, Chidambaram was not bothered by the muted reaction in the media. The English-speaking upper middle-class, he said, is more concerned

about their own tax rates than for the other India and about what is happening in rural India and its farm sector. Excerpts from an hour-long interview with Business Today's Sanjoy Narayan and India Today's Shankkar Aiyar.

Three Budgets in a row and all together five You obviously like the feeling, don't you?

Well, it's a job. Clearly it's a job that you enjoy. The

Be No More Big-Bang Budgets"

about what is happening in rural India; what's happening to agriculture. It's not concerned about the fact that only 27 per cent of farmers get credit from rural institutions. It's not concerned that 50 per cent of all children born in this country are born outside a hospital. That section does not even accept the fact that the remaining part of India is crying for help. This Budget addresses those concerns.

You have announced schemes for concessional lending to small farmers and earmarked significant sums for the social sector. But there is a difference between outcome and outlay. The government spends Rs 4 to get Rs 1 to the rural beneficiary...

It is premature to judge. I placed last time the outcome Budget. And by April 28 this year, we will place the performance Budget on that outcome budget. So you'll have two documents—the outcome budget placed in the beginning of 2005-06 and the performance budget placed at the conclusion of 2005-06. Let us judge ministries once the performance budget is out.

Do you have concerns about the delivery mechanism, particularly in the social sector?

I am more confident that the physical targets have been met. Now we'll have to look at the quality delivered. The numbers are going to be pretty good: the number of kilometers of roads, the number of houses, the number of villages electrified, the number of villages for which the drinking water problem has been tackled. I think the numbers will be very impressive. Now we'll have to go down to see the quality of the product delivered.

I know in a month the report will be

placed but what's your sense... have ministries done their bit? Have they spent the money that was allocated?

See, I think on education and road building, the spending is very good. If you look at the monthly accounts put out by the CGO, which gives the spending figures for all the ministries, you'll see that some ministries are doing much better. Broadly, plan expenditure was running at 66 per cent compared to last year's 56 per cent at the end of December. The figures at the end of January will have come out this morning. If 10 percentage points is the improvement in the rate of planned expenditure, it means that these ministries are spending.

You have said in this Budget that farmers will be provided short-term credit at 7 per cent. There's been criticism that you're administering interest rates and, secondly, will it happen?

I have said that it will require a level of subvention and I'm going to get that subvention after the Budget. We think that farmers in this country deserve to get their loans at 7 per cent. Yes, a small urban section will oppose it, but we think that this addresses the demand of the farming community. That would require a subsidy, a subvention and we've been giving this in the Budgets, so what's wrong with that?

Moving to the corporate sector, there are concerns that growth is slowing down. Manufacturing, in the third quarter of 2004-05, slowed down, and likewise in the third quarter of 2005-06, it slowed down a bit. But the first and second quarters were good, and hopefully the fourth quarter will also be good.

So do you expect your estimates of corporate tax collection to hold up?

Our RE (revised estimate) is reasonably accurate. In corporation tax, we are taking a hit of about Rs 7,000 crore, but we are making it up in service tax and Customs. We are also taking a hit on excise that's because of a burst of exports—area-specific exemptions and industry-specific exemptions require a large amount of excise to be either drawn back or refunded. Overall, we are on target.

When you say you are betting on growth, how much of it is consumption-led? After all, you have rationalised excise on a lot of consumer items.

Investment-led growth as well as demand-led growth. Consumption is rising; investment will rise, capacities will be added. I think both will stimulate growth.

The consumption boom seems to have happened due to one major reform and which is the change in interest rate regime. With interest rates hardening, are you still confident of consumption?

Interest rates are hardening not only in India, but elsewhere in the world. Therefore, what's happening in India is a reflection of what's happening there. Now, we don't have full control over interest rates. But given the interest rates, my judgment is that half-a-percent increase in home loan rates is not going to dampen the appetite of wannabes to own their homes. Incomes are rising, aspirations are rising, living styles have changed; people want to have these goods and services, and I think they'll quite willingly absorb the half-a-percent rise in interest rates. I don't think there will be a slowdown in lending.

Moving to investment, does it surprise you that Indian companies are investing more abroad than (last year it was

about \$3.5 billion) the FDI into India. Obviously, something is happening that makes Indians willing to invest abroad but foreigners unwilling to invest (in terms of FDI).

Both are investment according to me, and both are good according to me. If you invest abroad, you are probably exporting goods, you are exporting components, exporting finished goods; you are acquiring marketing arms, you are acquiring companies which would otherwise compete with you. So both outward and inward investments are good. But I don't agree with your numbers that outward investment is larger than inward investment. You have to count inward investment, you have to count actual investment plus the invested earnings plus

for other openings.

There's a lot of hype that precedes a budget presentation, but do you think this era (of hype) is over? The tax structures have been corrected, duty rationalizations have been done, so what more big bang...

You are absolutely right. There will be no more Big- Bang budgets.

So what will budgets be like?

Budgets will be a matter of fact statements of income and expenditure, sticking to the path of fiscal prudence, and wise allocation of resources and effective monitoring of how those allocations are spent. Budgets will move to outcome budget, performance budget, tax expenditure statement, gender sen-

No, Dr Rangarajan has told me that his recommendations should be taken as a package, and that we should not pick and choose. If it is taken as a package, it is revenue neutral to the government. But I haven't studied it in great depth, since it came just a few days ago. So I don't think it should affect my bottomline. Whether it will be inflationary, we'll have to see, depending on the decision that is taken. Any pass-through of price rise is bound to have some inflationary consequence.

Would you at some point want to phase out FBT? You have made some modifications this year.

FBT is justified as I said on the principles of equity. There's no country in the world which does not tax perquisites. Tell me what is the case for a superannuation contribution of Rs 15 lakh, say for an MD or CEO which will not be taxed in the hands of the employer because it is deduction then and it will not be taxed in the hands of the employee? Is there any justification for leaving a sum of Rs 15 lakh untaxed? I don't think so. We have now allowed Rs 1 lakh contribution by the employee and Rs 1 lakh by the employer to be exempt from tax. Is Rs 2 lakh a year in superannuation fund a small amount? Rs 2 lakh a year in contribution to superannuation fund tax exempt means there is a tax saving of Rs 65,000. And Rs 65,000 tax savings is twice the per capita of this country.

Finally, there are rumours that you are moving across the road to South Block (to the External Affairs Ministry). The South Block has I think two offices, and both occupied, and I don't think I have the capacity or the credentials to aspire for those offices.

Thank you, Mr Chidambaram. ■

"We think that farmers in this country deserve to get their loans at 7%. What's wrong with that?"

other capital that I think is still large. Both investments must grow.

But the fact remains that you haven't been able to ramp up FDI. It still remains at the Hindu rate of \$3.2-4 billion mark, although you have spoken of higher levels of \$10 billion or so.

If you count all the three heads of FDI, we are already pretty close to \$7 billion or so. We need to attract more FDI. We are, therefore, making a big push in the power sector, coal sector, telecom sector, shipping, civil aviation.

What about retail?

In retail, we've made a small opening. That is all our political space allows us to open. And if there is more political space, we can look

sitivity, sensitivity to scheduled castes and scheduled tribes, inclusion, fiscal prudence. Those will be the main highlights of future budgets.

The big reforms will be done quietly...

Big reforms will be done throughout the year, as and when policies are made.

Your budget was expected to address the issue of petro-pricing. But did the Rangarajan Committee report come too late?

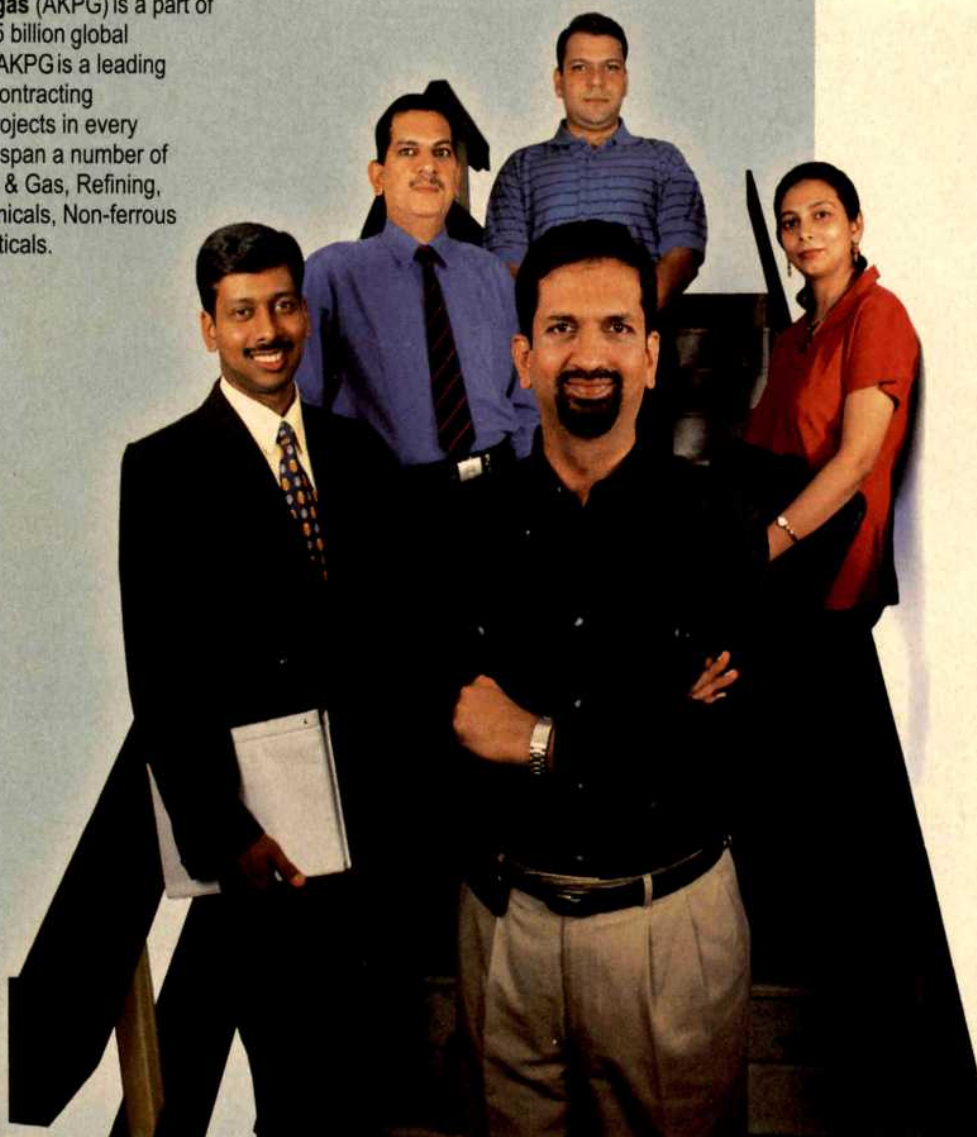
It came seven days before the budget. There was no time to address the issue in the budget. It has to be addressed now.

When that happens, do you expect your growth projections to get affected?

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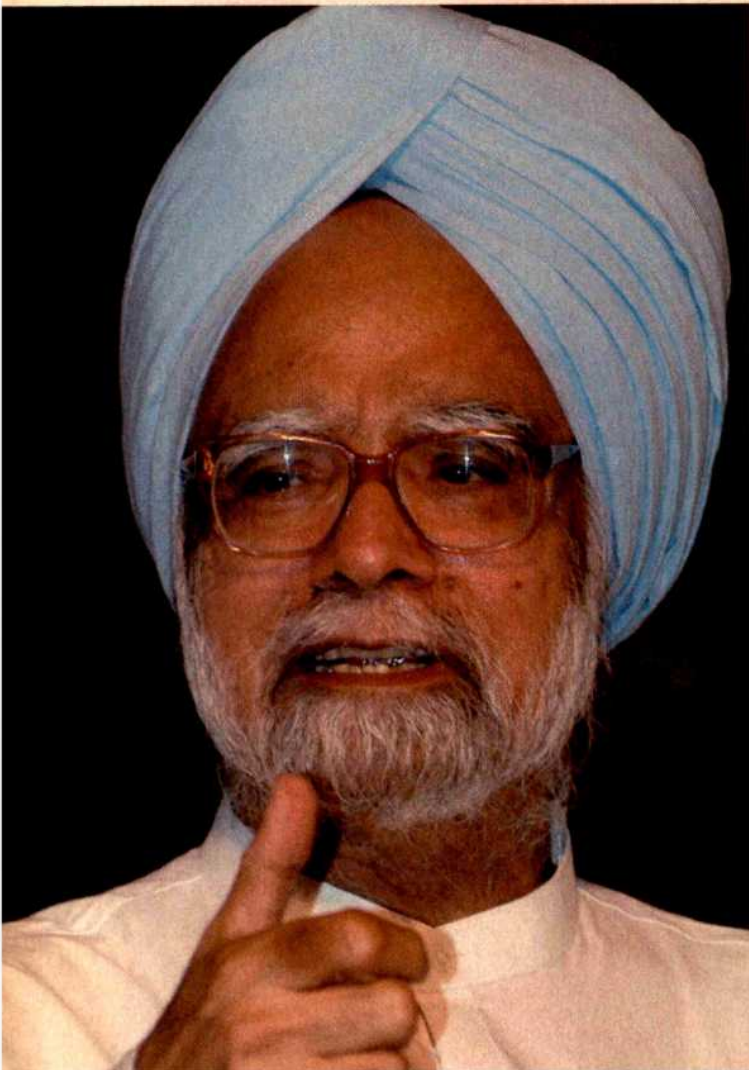


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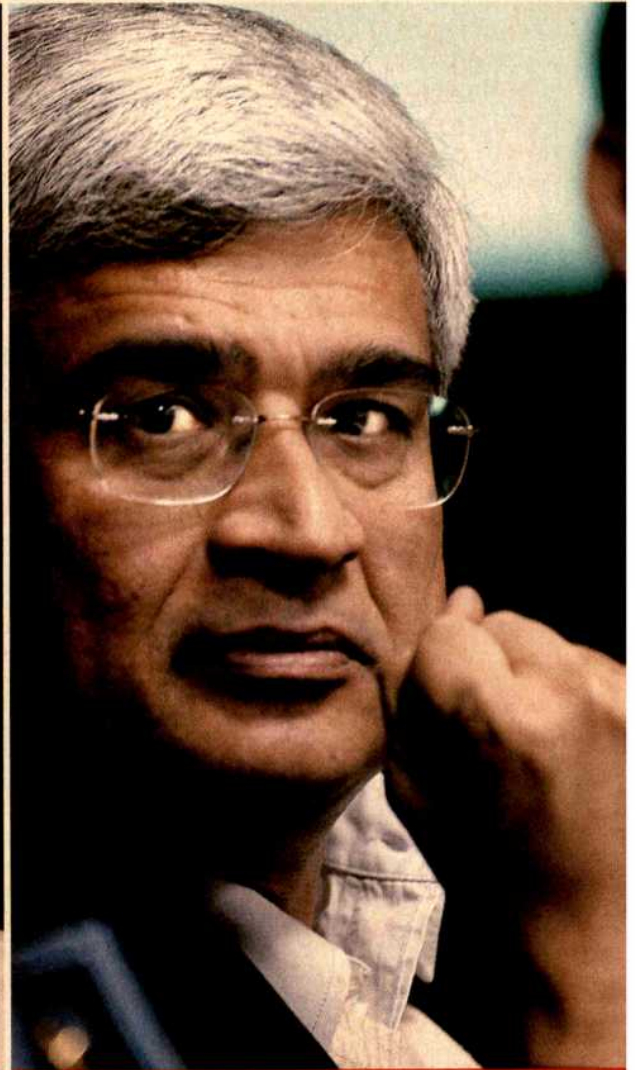
FM Trumps The Opposition

The Left and the Right don't know how to criticise the Budget. SHALINI S. DAGAR AND RITWIK MUKHERJEE



Prime Minister Manmohan Singh

The Congress couldn't have hoped for a better Budget in a year when elections are due in five states. It does not antagonise any section of the electorate and will not lose it any votes



CPI (M) leader Prakash Karat

The Opposition on the Right and the Left have emerged losers as the Budget has denied them an emotive issue with which to beat the government.

PALANIAPPAN CHIDAMBARAM WAS AN ACE LAWYER before he became Finance Minister of India. In the course of his legal career, he has doubtless had to consider all sides of an argument before settling on the best course of attack, or defence. That ability to second-guess the opposition was fully in evidence during his Budget speech.

By the time he ended it at about 12.35 p.m., it was clear that Chidambaram's "friends" on the Left and the Opposition on the Right had little to criticise him about. The Left, in particular, has lots to be happy about. The Finance Minister has announced massive

increases in farm credit and allocations for social sector schemes. Of course, the comrades won't admit it in so many words. "Though the Budget sticks to the overall remit of the so-called New Economic Framework, one cannot overlook the fact that there have been attempts, however feeble, to address the concerns expressed in the National Common Minimum Programme," says CPI(M) leader Nilotpal Basu. That's politcalese for "we're happy, but don't expect us to say that on record".

BJP's Yashwant Sinha also says pretty much the same thing. "The Finance Minister has not addressed the

BUDGET ANNOUNCEMENT	2006	PART OF NATIONAL COMMON MINIMUM PROGRAMME	BJP	LEFT PARTIES
● Spends on education up 31%; health and family welfare up by 22%	YES	Doesn't have a particularly strong position on the issue	Clearly a focus area for the comrades; will try and claim credit for it	
● Agri-credit targets ramped up to Rs 1,75,000 crore	YES	Shrugs this off as too little too late	Good package to take back to the electorate	
● Allocation for welfare of minorities increased	YES	Likely to have issues with 'psuedo secularism'	Is part of its motto of true secularism	
● Easier norms for investments in overseas instruments	NO	Had introduced the initial window	Will definitely see red, but may accept it as a trade-off	
● No rationalisation on petro-product duties	NO	Favours faster pass through	Want LPG and kerosene prices slashed	
● Amendment in coal policy	NO	Unlikely to oppose it as it takes reforms logic forward	May see red, especially as coal workers form a core constituency	
● Cash and non-cash support to state-owned enterprises	YES	Advocates limiting government's role in business	Just what Marx ordered; Left unlikely to have any issues with this one as it is a major issue with its key constituency	
● Step-up in spends for J&K and the NE region	YES	No issues as North-East was a key focus area during the NDA regime	Seems to be the politically correct thing to do for the Left	
● Special incentives for the manufacturing and service sectors to harness their job creating potential	YES	Is competing with the Congress for loyalty of people employed in these sectors; so is hardly in a position to complain	Employment generation is close to it heart, but may make politically motivated noises about private entrepreneurs cornering the incentives	
● Allocation of Rs 1,500 crore to the telecom sector	NO	Did much to sort out legal and other tangles in the sector when in office; so it is something that it holds dear	Not particularly enamoured of the sector; but unlikely to oppose move	

underlying concerns of the economy," he says, questioning the artificial holding down of the inflation rate. But then he gives the game away when he says: "The only thing we can be grateful about is that the Finance Minister's budgetary exercise has not done it (the economy) any great damage." Translated from politicalese into English, that sounds like a former finance minister congratulating the incumbent.

In West Bengal, Left Front Chairman and CPI(M) politburo member Biman Bose is happy that Calcutta University has been granted Rs 100 crore in its 150th year. In an election year, this is a particularly pleasant gift for Bose, who is also the Marxist education czar of the state. And the announcement of a deep-water port in the state will allow the Marxists to claim that their dalliance with the UPA at the Centre is bearing fruit on the ground.

Chidambaram began his speech with a plethora of incentives for the farm and social sectors. This is exactly what the Left wanted; and they can hardly be expected

FIVE SOPS FOR THE LEFT

- Total allocations for social sector schemes increased to Rs 50,000 crore; eight flagship schemes get large outlays
- Farm credit increased from Rs 1,41,000 crore to Rs 1,75,000 crore; short-term credit to be made available to farmers at 7 per cent
- Announcement of a deep-water port in West Bengal
- Old age pensions increased from Rs 75 per month to Rs 200 per month
- Allocations for minority uplift increased; this fits in well with the Left's 'secular' plank

to complain about being granted their wishes. And it will be politically incorrect for the BJP to crib about an issue that's obviously been well received by the people. If the Left does have issues with the Budget, they will obviously concern some populist demands that the Finance Minister has skirted clear off. The Marxists had proposed a heavy tax on inheritance of property, they had wanted an additional tax on the sale of luxury cars, other items of what they call "conspicuous consumption" and on shopping malls and five-star hotels. The Finance Minister has judiciously kept mum on all of these. The Left, by the

look of it, seems to consider it a fair trade off. But it's still an election year and the Left Front, which keeps its cadre primed on massive doses of anti-Congressism, obviously cannot let a Budget pass without some choice soundbytes for the benefit of the faithful. So, after keeping his counsel through the day, West Bengal Finance Minister Asim Dasgupta says: "The Budget fails to protect the interests of the common man. There is no concrete step or direction to take care of the unemployment

REFORMS THAT THE LEFT SCUTTLED

● **Disinvestment in BHEL:** Sparked the first major showdown between the Left parties and the United Progressive Alliance (UPA) government. The government was forced to back down after the comrades boycotted the Co-ordination Committee.

● **Cut in food subsidy:** Again, the Cabinet proposed a reduction in the monthly quota of foodgrains distributed through the public distribution system to families above the poverty line. That would have cut the subsidy bill by Rs 4,524 crore. The Left peremptorily disposed of the proposal and that was that.

● **Financial services liberalisation:** The government has announced a hike in the foreign investment cap in insurance companies from 26 per cent to 49 per cent, but the move is in a limbo. The reason? The Left's ire. In the banking sector, consolidation cannot take place despite the finance minister's backing because the Left fears possible job losses. Incidentally, the Left trade unions have a vice-like grip over these two sectors.

● **Pension reforms:** Pensions reforms are stalled because



First blood: The Left had its way on BHEL

the Left parties do not want private funds to manage pension funds and also do not want pension funds to be invested on the stock markets.

● **Petrol and diesel price hikes:** Global crude prices were on a boil. But the communists threatened a nationwide agitation against any price hike. Result: public sector oil companies, forced to subsidise domestic oil prices, are bleeding badly.

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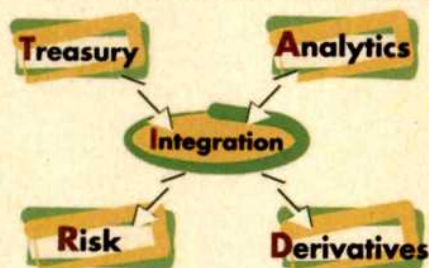
Derivatives Markets

Currency Risk

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- Exotic Options like Barrier, Zero-Cost etc
- Vanilla Currency Swaps
- Cross Currency Swaps

Interest Rate Risk

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THE BJP

"THERE IS NO MOVEMENT AT ALL ON ECONOMIC REFORMS. DISINVESTMENT HAS NOT EVEN BEEN MENTIONED"

FORMER FINANCE MINISTER AND SENIOR BJP LEADER Yashwant Sinha is less than happy with this year's Budget proposals. These are his faxed responses to a questionnaire sent to him by BT's Shalini S. Dagar. Excerpts:

How do you rate the Budget?

The Finance Minister has not addressed the underlying concerns of the economy. Inflation has been kept artificially low by holding back an increase in petroleum prices. Interest rates are under pressure and will adversely impact consumer spending, the housing and construction sectors and the economy as a whole. They are, in fact, already affecting India Inc.

The Finance Minister has increased the flow of credit to the farm sector. Your comments?

This was long overdue. The reduction in short-term interest rates to 7 per cent is welcome but inadequate. It is regrettable that the Finance Minister has not thought it fit to implement the Farm Income Insurance Scheme proposed by the NDA regime. Moreover, the allocation to the rural sector is only nominal in view of the fact that this ministry will implement the National Employment Guarantee Scheme.

Will the budget take economic reforms forward?

There is no movement at all on economic reforms. Disinvestment has not even been mentioned; pension reforms have been mentioned in passing. The question of subsidies depends on consensus. The economy has an in-built momentum of its own. The only thing we can be grateful about is that the Finance Minister's budgetary exercise has not done it any great damage.

problem through substantial increases in production. We are also disappointed that there is nothing to boost small scale and cottage industries."

The one issue that can get the BJP's goat is the additional allocation for minority welfare. But even here, it is obvious that it is hamstrung by its allies. So all Sinha says is that it is an "unfortunate" development and makes for "dangerous alchemy".

As for the Congress, it couldn't have hoped for a better Budget. Elections are due in five states—West Bengal, Assam, Tamil Nadu, Pondicherry and Kerala. It is expected to do badly everywhere. Budget 2006 may not

THE LEFT

"THERE HAVE BEEN ATTEMPTS TO ADDRESS CONCERNS EXPRESSED IN THE COMMON MINIMUM PROGRAMME"



THE LEFT FRONT HAS LITTLE TO COMPLAIN ABOUT THE Budget 2006. A very satisfied Nilotpal Basu of the CPI(M) speaks to Shalini S. Dagar of BT on the issue. Excerpts:

Are you satisfied with the Budget?

Though it sticks to the overall remit of the New Economic Framework, one cannot overlook attempts, however feeble, to address the concerns expressed in the National Common Minimum Programme.

Is there anything you are unhappy about?

Given the revenue buoyancy, the Finance Minister could have spent a little more on the social sector, infrastructure and agriculture. The Fiscal Responsibility & Budget Management Act 2003 has been used as an excuse to cut down on Plan expenditure.

How do you view the hike in the foreign investment limit in the debt market?

This decision of the government is very disturbing. Given the volatility in the government securities market, it is not a welcome step.

The Finance Minister has hiked old age pensions to Rs 200 per month. That should be a welcome sign...

We had demanded that the government increase the old age pensions from Rs 75 to Rs 300. This was not done; but we still welcome the increase. However, the Finance Minister should not have announced a matching contribution from the state governments without getting their consent. This is a central government scheme; so there is no logic in putting additional pressure on state finances.

help it win any additional votes—or seats—but it can be assured of one thing. It doesn't unnecessarily antagonise any section of the electorate and, therefore, will not lose it any votes either. In an election year, that's more than what any party is usually willing to settle for.

So, who won and who lost? The big winner undoubtedly is Chidambaram himself. Prime Minister Manmohan Singh and UPA Chairperson Sonia Gandhi have also emerged big winners. And the losers: the Opposition on the Right and the Left, who've been denied an emotive issue with which to beat the government. ■

ANALYSIS

A BT-ERNST & YOUNG
ANALYSIS

AUTO & AUTO
COMPONENTS

BANKING &
FINANCIAL SERVICES

CEMENT

FMCG/DURABLES

HEALTH SCIENCES

HOSPITALITY &
TOURISM

IT & ITES

MEDIA &
ENTERTAINMENT

OIL & GAS

POWER

REAL ESTATE

ROADS

STEEL & METALS

TELECOM

TEXTILES



SECTORAL ANALYSIS

The Good And The Bad

A *Business Today*-Ernst & Young analysis of Budget 2006 impact on key sectors.

AS THE FINANCE MINISTER P. CHIDAMBARAM WAS WINDING down his one-hour-thirty-five-minute speech, Hyundai Motor India's B.V.R. Subbu had a grin on his face and was busy making some back-of-the-envelope calculations. After all, Chidambaram had partly given in to the automakers' demand for lower excise on cars by reducing the rate from 24 per cent to 16 per cent on small cars (not exceeding 4,000 mm in length). "I think a Santro with power steering should cost Rs 3 lakh ex-showroom," Subbu, President of Hyundai Motor India, told *BT*. That means the small car segment, which already accounts for more than three-fourths of the passenger car market, will get bigger still. But not all sectors are happy with Chidambaram's handiwork this year. Cigarette manufacturers have once again been slapped with higher excise—of an additional 5 per cent this time around. ITC's Y.C. Deveshwar thinks that's unfair because while cigarettes account for 85 per cent of tobacco sales, other products like *gutkha* have been spared. Steel companies, too, will likely have a reason to crib; the import duty on steel melting scrap has been raised back to 5 per cent. But hardware manufacturers, especially manufacturers of DVD (digital video disc) drives, flash drives and combo drives will have plenty to cheer about. These three products will henceforth not attract any excise duty. Domestic PC (personal computer) makers have been granted their wish too. To take advantage of CENVAT (central value-added tax) benefits, the industry had wanted the excise on PCs to be restored at 12 per cent. Since the excise on PCs is eligible for input tax credit, retail prices may not be affected. What about sectors like banking, infrastructure and oil, and the major companies in each of those sectors? Clearly, Budget 2006 does not impact all of them equally. To assess the impact of Budget 2006 on India Inc., *BT* and E&Y look at 15 key sectors.

SECTORS

- ▲ AUTO & AUTO COMPONENTS
- ▶ BANKING & FIN. SERVICES
- ▲ CEMENT
- ▲ FMCG/DURABLES
- ▲ HEALTH SCIENCES
- ▲ HOSPITALITY & TOURISM
- ▲ IT & ITES
- ▼ MEDIA & ENTERTAINMENT
- ▶ OIL & GAS
- ▲ POWER
- ▲ REAL ESTATE
- ▲ ROADS
- ▼ STEEL & METALS
- ▼ TELECOMMUNICATIONS
- ▲ TEXTILES

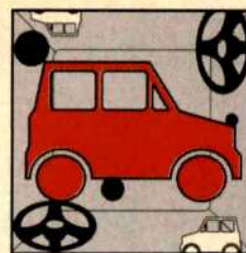
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For a complete analysis of the 15 sectors by Ernst & Young visit www.business-today.com

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□ AUTO & AUTO COMPONENTS

In High Gear



2006 WATCH



KALYAN CHAKRAVORTY

THE AUTO INDUSTRY'S DREAM RUN CONTINUED LAST year, although there were signs of a marginal slowdown. Growth in commercial vehicle and passenger car sales was down to 6-7 per cent, but two-wheelers continued to clip at 12.8 per cent. An interesting development was strong export sales of two-wheelers (up 46.7 per cent) and commercial vehicles (36.9 per cent). While these growth rates are off a relatively small base, they signal a strong trend towards globalisation of the industry.

One of the biggest beneficiaries of this growth has been the auto components industry. Apart from domestic growth, the vendors are benefiting from a massive trend towards outsourcing of components from India by global majors. The export of components from India is expected to grow from \$1.5 billion (Rs 6,750 crore) at present to a staggering \$25 billion (Rs 1,12,500 crore) in 2015. An indicator of the growing confidence of the sector is the level of globalisation achieved by key players over the last few years. The Tata acquired truck and bus units in Korea and Spain respectively, while M&M has forayed into the US, China and East Europe. Among vendors, Bharat Forge and Amtek have led the way by aggressively acquiring large companies in the US, Europe and China.



"The market is going to flare up, particularly for cheaper cars such as the Alto. But I don't know if manufacturers can satiate the demand. We expect increased demand for our Santro, but we are having problems meeting current demand. Many other manufacturers are in the same boat."

B.V.R. Subbu/ President/ Hyundai Motor India

SECTORAL IMPACT

- Reduction in peak customs duty will lower cost of imported raw materials and components used in automobile manufacturing.
- 4 per cent additional duty of customs is available as credit to manufacturers. Manufacturers having large import contents and small value-addition and manufacturers having high volume of exports would have cash flow issues and refund problems.
- Reduction of excise duty on small cars would result in lower end prices. This could trigger growth in volume and help make India a manufacturing hub for small cars.

CORPORATE IMPACT

Maruti Udyog: The hot-selling Swift (1,300cc) is not eligible for the duty cut, but the faster-moving Alto along with the Zen, WagonR and the venerable 800 do make the cut. The problem: Maruti seems capacity-strapped.

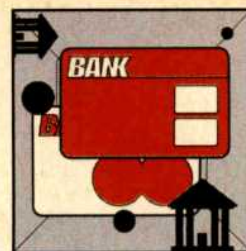
Hero Honda: There might be some sales lost because some consumers might prefer a cheap set of four wheels. But with sales of close to 2.5 lakh motorcycles a month, a couple of hundred lost sales shouldn't bother this company.

Bharat Forge: The company, and others in auto-parts, should see domestic demand for its products increase if the small car market booms and the commercial vehicles market continues to move ahead. Besides, exports should surge.

Bajaj Auto: Like Hero Honda, the company might see a minimal loss of some consumers. However, with industry demand growing at over 15 per cent a year, there are more than enough people buying motorcycles like Bajaj's.

BANKING & FINANCIAL SERVICES

It's Party Time



2006 WATCH



SHOME BASU

THE INDIAN FINANCIAL SERVICES SECTOR IS ON A HIGH growth path. The banking sector has grown at over 15 per cent annually over the last five years. This growth has been driven by aggressive new private sector banks and foreign banks that have been competing for the retail and SME (small and medium enterprises) pies. The mutual fund (MF) industry, in terms of assets under management, has grown from \$33.5 billion (Rs 1,50,750 crore) in 2004 to \$44.3 billion (Rs 1,99,350 crore) in 2005, with an overall growth of roughly 14 per cent per annum over the last five years. The life insurance industry witnessed a 36 per cent growth in new business premium in 2004-05, with LIC growing at 22 per cent and the private players surging at over 125 per cent. The financial services sector had plenty of expectations from Budget 2006, ranging from an increase in FDI limits in PSU banks from 20 per cent to 49 per cent, to allowing MFs to invest in commodity funds, to de-tariffing in general insurance.

SECTORAL IMPACT

- Cooperative banks no longer eligible for income tax exemption.
- Investments in specified fixed deposits of scheduled banks eligible for tax incentives, bringing them at par with other investment avenues eligible for similar tax incentives.
- Outsourcing of ATM-related services to be liable for service tax. Further, services in relation to credit cards, debit cards, charge cards and other payment cards now liable to service tax under a separate service category.
- The limit on FII investment in government securities to be increased to \$2 billion (Rs 9,000 crore) from \$1.75 billion (Rs 7,875 crore) and in corporate debt from \$0.5 billion (Rs 2,250 crore) to \$1.5 billion (Rs 6,750 crore).

CORPORATE IMPACT

SBI: With the biggest network of over 14,000 branches, it will benefit the most from interest rate tax exemption for small depositors.

ICICI Bank: Equating SMEs from services sector with the manufacturing ones will benefit it.

Dena Bank: The move to allow conversion of special securities held till maturity into tradeable instruments will infuse additional liquidity.

Bank of Baroda: The focus on SMEs, micro finance and self-help groups will help it.

HDFC Bank: Will gain from farm sector focus.

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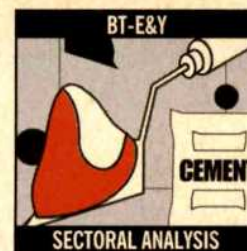
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CEMENT

The Going Gets Good



2006 WATCH



INDIA IS THE SECOND LARGEST CEMENT PRODUCER IN the world (after China), with a capacity of approximately 160 million tonnes (MT), 84 per cent of which was utilised in 2004-05. That figure improved to 87 per cent in the April-December 2005 period, with the industry clocking its highest growth rate of the past decade, of close to 10 per cent. To be sure, the cement industry is witnessing a significant surge in demand courtesy strong economic growth, firm demand from the housing and real estate sector; and new infrastructure/irrigation projects initiated by both Central and state governments. Many cement players have announced expansions, particularly in the northern region. Whilst these additions would augment supplies, they could also reduce utilisation levels and impact prices in the export market, as some 30 MT is expected to be added in the Middle East over the next few years. Another dampener is the increasing freight and coal costs, which is why a reduction in excise duty from Rs 400 to Rs 350 per tonne was the main expectation from the Budget.



"Overall, a positive Budget. The cement sector is in for a good time, though some tight rope walking needs to be done. This is a highly regulated sector with high duties. On the infrastructure front, it is now time for action. Much of the progress in infrastructure will depend on how much is implemented."

D.D. Rathi/ Whole Time Director & CFO/ Grasim Industries

SECTORAL IMPACT

- The 54 per cent increase in allocation for the Bharat Nirman Scheme and an increase in outlay for the National Highway Plan to Rs 9,945 crore could have a positive impact.
- Coal reserves of 20 billion tonnes to be de-blocked for power projects. The definition of captive consumption is to be amended to allow mining by producers with firm supply contracts with steel, cement and power firms. This should allow cement firms to set up coal-based plants.
- Revision in MAT from 7.5 per cent of book profits to 10 per cent may adversely impact bottom lines of cement manufacturers.
- High GDP growth and continued thrust on infrastructure to sustain current rate of high cement consumption.

CORPORATE IMPACT

Gujarat Ambuja: May make a marginal impact since there has been a reduction in duty on pet coke. Could gain once large projects are announced.

ACC: Very little impact although, as in the case of most cement companies, the continued thrust on rural housing via the Bharat Nirman programme is a long-term upside.

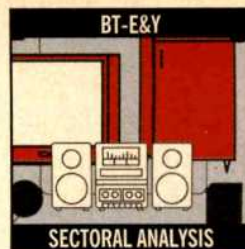
UltraTech Cement: Like any other large player, the company may gain from the government's plans to develop infrastructure.

India Cements: The company imports its coal requirement and the impact of the Budget is, therefore, neutral.

Madras Cements: No immediate gain.

FMCG/DURABLES

Back In Action



2006 WATCH



VIVAN MEHRA

AIDED BY A RESURGENT CONSUMER DEMAND, THE FMCG sector witnessed a growth of almost 9 per cent last year, courtesy higher disposable incomes and higher realisations from products. The transition to a value-added tax (VAT)-based regime has also been surprisingly smooth for most consumer product manufacturers. Unlike earlier years, in 2005 the growth was across product categories, with biscuits and shampoos growing at 10 to 15 per cent. The rising demand for branded consumer durables offset the higher input costs. Unbranded products have lost the demand base from around 40-50 per cent a few years ago to 8-10 per cent last year. The enactment of the National Rural Employment Guarantee Act and higher incomes in the rural areas—along with the increased availability of consumer credit, especially in the Tier-II cities—have had significant impact on the industry.

The biggest challenge for the industry would be to maintain growth through new product launches, enhanced advertising and value-added services. Although the industry has benefited significantly from the tax exemptions in rural areas, these exemptions are likely to be discontinued in the near future.

SECTORAL IMPACT

- No increase in personal tax rates would continue to boost consumer spending.
- Priority sector status for food processing sector, rationalisation of excise duties in instant foods and exemption of excise for items like ice-cream and meat preparations would be positive for many FMCG companies.
- Reduction of peak customs duty from 15 per cent to 12.5 per cent would help reduce cost of certain critical commodity raw materials used in FMCG products.
- Rationalisation of fringe benefit tax on brand ambassador, celebrity endorsement expenses and tours and travel, would further help FMCG companies.

CORPORATE IMPACT

HLL: Being the largest exporter of marine products, HLL will benefit from exemption on excise duty on fish. Cut in duties on packaged and ready-to-eat foods, ice creams, pectins, pasta and yeast will also boost its business.

Nestle: Lower excise on condensed milk and reduction in excise on ready-to-eat, packaged food items is positive news for the company.

ITC: The cut in excise duty on processed foods and paper, increased outlays for agriculture and tourism, reduction in customs duty on packaging machines augurs well for the company. As for the 5 per cent increase in excise on cigarettes, smokers will pick up the tab.

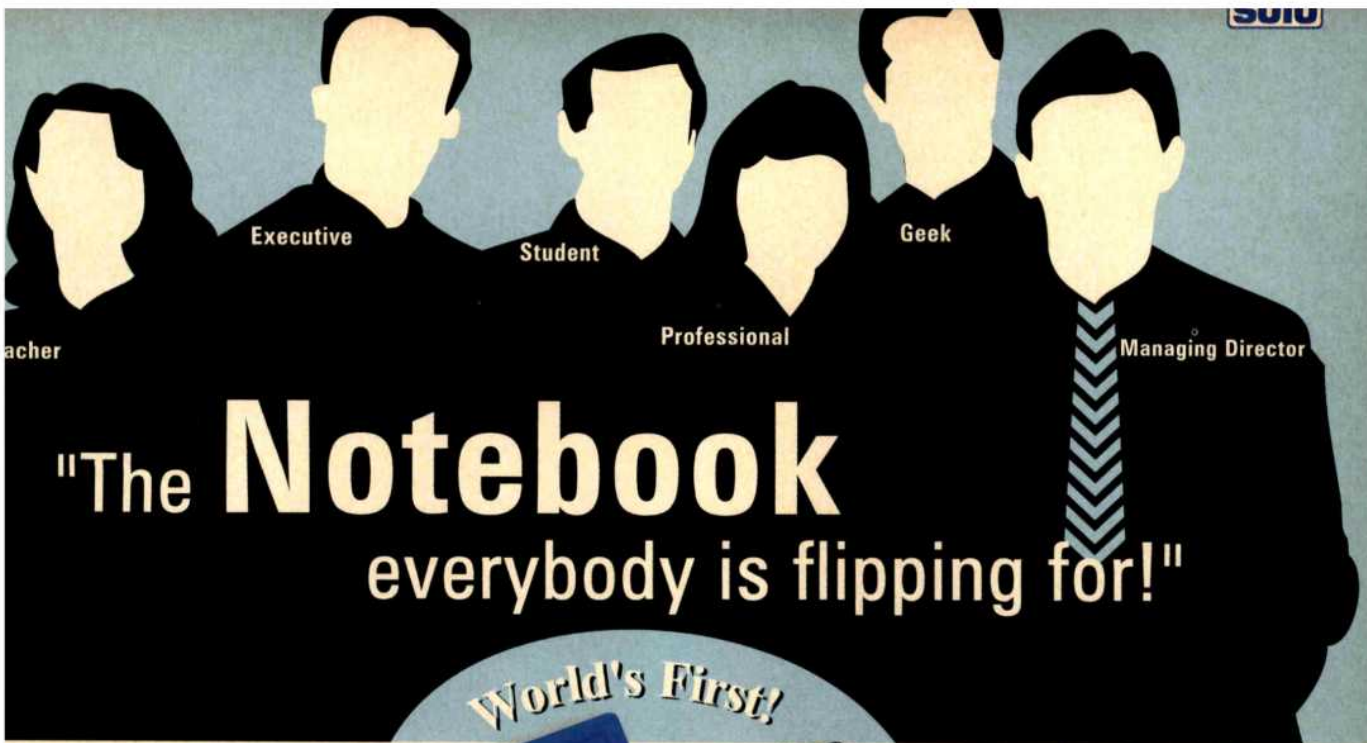
Videocon: The FM has indicated that plasma and LCD panel industry will be treated as infrastructure industry. The company will benefit.



"This Budget will provide an impetus to local manufacturing and prove to be positive for the overall economy. The emphasis on development of overall infrastructure, especially rural areas and new towns, is a welcome step and will serve to open up new markets."

K.R. Kim/ MD/ LG Electronics India

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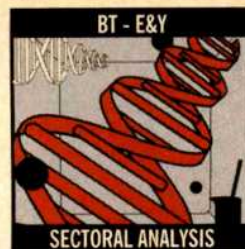
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Lab To The World



2006 WATCH



VIVAN MEHRA

THE INDIAN PHARMACEUTICALS MARKET IS GROWING AT 7.2 per cent a year, and could touch \$12-billion (Rs 54,000 crore) by 2010 (current size: \$8.2 billion or Rs 36,900 crore). Top Indian companies, however, derive a large portion of their revenues from global sales and are positioning themselves as strong players in the world market for generics. Growth drivers include the launch of new products (more than 3,900 of them in the last two years). The introduction of product patents and extensive CRAM (contract research and manufacturing) and clinical trial capabilities are raising the confidence levels of foreign MNCs. But the industry still faces challenges in terms of enforcement of the products patent regime, regulatory compliances and the optimisation of high distribution margins.

The biotech industry crossed the \$1-billion (Rs 4,500-crore) mark in 2004-05, growing by over 36.5 per cent over the previous year. Biotech exports from India are currently pegged at \$ 455 million (Rs 2,047.5 crore). But few valuation benchmarks and high uncertainty have resulted in a lack of funding.

SECTORAL IMPACT

- Sample drugs distributed to doctors to fall outside the purview of sales promotion expenses liable to the fringe benefit tax (FBT).
- Time limit for tax holiday benefit for entities setting up, maintaining or operating biotech or pharmaceutical parks extended to March 31, 2009.
- Reduction in customs duty on certain anti-AIDS, anti-cancer drugs, life saving drugs will lower retail prices.
- There will be increase in cost of certain clinical trials due to service tax.

CORPORATE IMPACT

Dr Reddy's Labs/Ranbaxy/Cipla/Sun Pharma:

"There is nothing spectacular in the Budget for the pharma sector. The industry, however, was not expecting much from the Budget either," says DRL's Satish Reddy. But reduction in peak customs duty will benefit companies like Cipla and Sun Pharma, which import 30-40 per cent of their raw materials.

Apollo Hospitals/Wockhardt: Cut in peak import duty doesn't help because most hospital equipment are already at low rates (5 per cent). But the reintroduction of counter balancing duty will hurt. "Healthcare has been completely ignored," laments Dr Prathap Reddy of Apollo Hospitals.

Biocon: Again, the reduction in peak customs duty should help Biocon, which imports nearly half of its raw materials. Other than that, the company doesn't find much to cheer about in the Budget.



"The Budget has ignored the industry's (demand for tax sops on R&D). With the advent of the WTO-TRIPS regime, R&D is key to the survival of the bio-pharma industry. If this incentive is not made available beyond 2007, (investment) into R&D is likely to diminish."

Kiran Mazumdar-Shaw/ CMD/ Biocon

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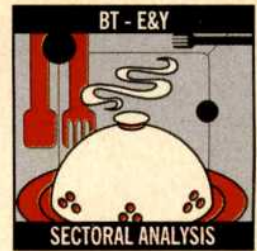
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HOSPITALITY & TOURISM

Home To Boom



2006 WATCH



THE HOSPITALITY AND TOURISM INDUSTRY HAS SEEN AN impressive growth over the last five years, with tourist arrivals increasing to almost 4 million from 2.6 million. As a result, forex inflows have grown by almost 7 per cent. Average occupancy in hotels has grown to 78 per cent from 60 per cent in 2000. Domestic tourism, which has been the mainstay of the tourism industry, has grown 14 per cent, topping 350 million tourists. Factors such as per capita income, growing business confidence and the entry of budget airlines have buoyed domestic tourism. The government has responded by upping spend on tourism promotion five times, and what is being marketed is not just India's exotic locales, but also its medical facilities.

However, India's share of world tourism is just 0.7 per cent. Tourism is concentrated in the metros and accounts for the largest proportion of the traffic. This highlights the need to develop airports and related tourism infrastructure in the other regions to enhance tourist dispersal across India. Other issues that need to be addressed are shortage of budget hotel rooms and a lack of related infrastructure.

SECTORAL IMPACT

- Increase in tourism development budget to Rs 830 crore from Rs 786 crore will provide increased funds for advertising and promotion of tourism circuits.
- Integrated development of 15 tourism circuits will lead to greater demand for budget and concept hotels. Identification and development of 50 villages with unique handicraft skills could boost rural tourism into these areas and sale of local artifacts.
- Inclusion of tourism and hospitality services under the definition of SMEs (small and medium enterprises) may boost credit offtake, with increased borrowing sources and funds available under SME lending.

CORPORATE BOX

Indian Hotels/East India Hotels/ITC:

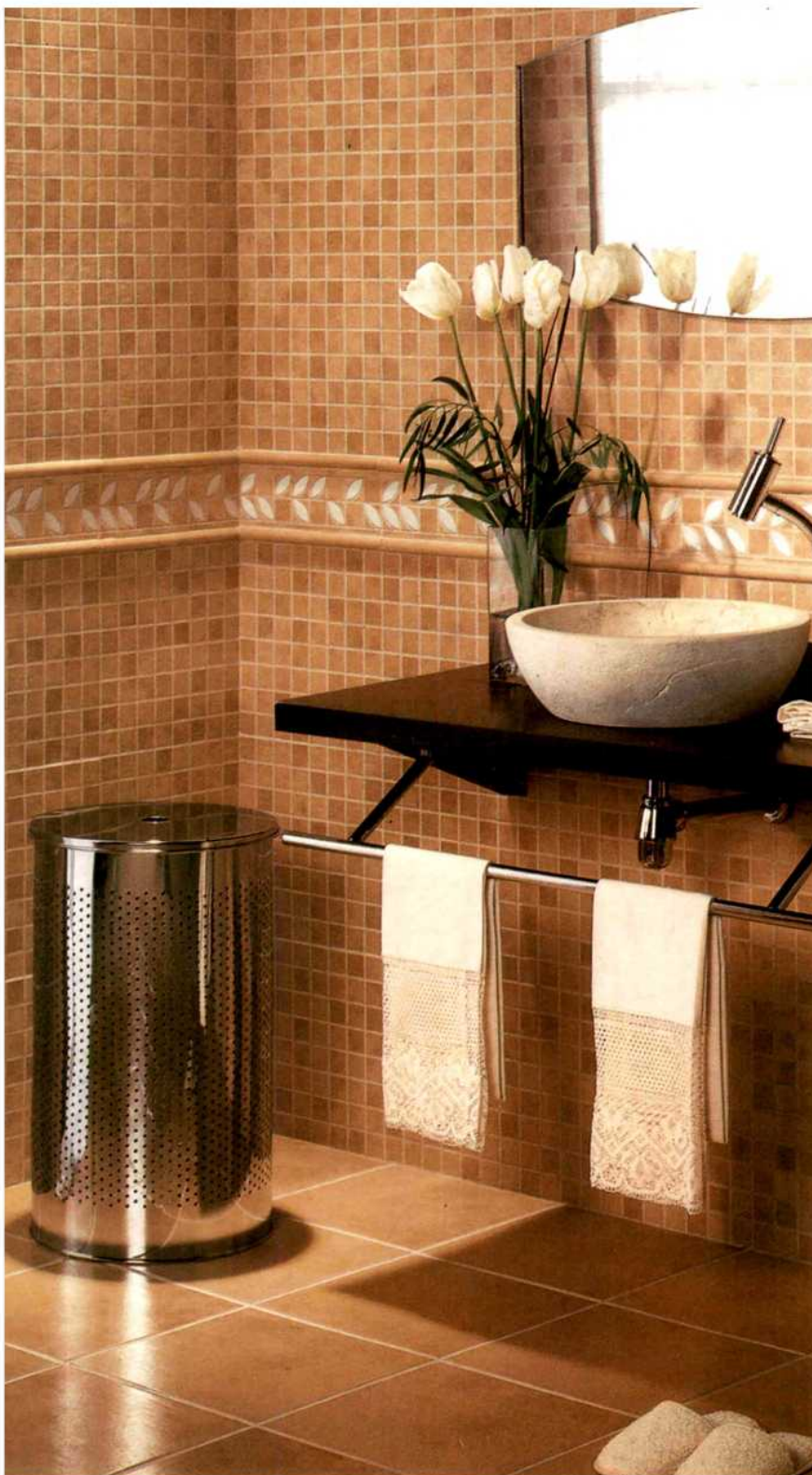
Development of tourist spots and the promised improvement in infrastructure, particularly roads, will provide better connectivity, and hence may give a boost to tourism in the country. Rationalising FBT (fringe benefit tax) may also bring some relief to the industry.

Kuoni/Thomas Cook: The move to create 15 new tourist destinations and identify 50 villages to showcase India's cultural heritage will help the industry grow in the long term. However, bringing the luxury class international air and cruise travel into the service tax net may marginally impact operators. Expansion of the hospitality industry will also help promote tourist traffic from within and outside India.



"The initiatives proposed such as creating 15 new tourist locations, identification of 50 villages that could showcase the rich cultural heritage of India and creating four new catering institutes would provide the right impetus for the growth of this industry."

Raymond Bickson/ MD/ Indian Hotels Company



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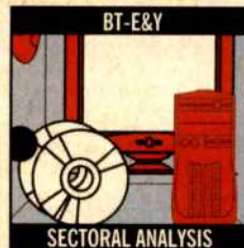
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The Golden Sectors



2006 WATCH



VIVAN MEHRA

THE INDIAN IT AND ITES INDUSTRIES CONTINUE TO chart double-digit growth, with industry revenues for FY2006 expected to top \$36 billion (Rs 1,62,000 crore). This represents a year-on-year growth of 28 per cent, with export of software and services accounting for almost \$23 billion (Rs 1,03,500 crore). Key developments for the sector have been the increasing scale of outsourcing deals, falling communication costs, emergence of the global delivery model and integrated service offerings. Engineering, R&D, embedded systems, analytics and high-end consulting are areas that hold significant potential for growth. Despite the sector's robust growth, there are several key challenges, including a lack of adequate skilled manpower, high attrition rates, and increasing salary levels.

On the IT hardware front, the industry is expected to grow at 17 per cent in revenues over the previous year to around \$6 billion (Rs 27,000 crore). Education, e-governance, banking and growth in IT/ITES sectors will be important growth drivers of hardware growth. Availability of high quality infrastructure remains a key issue, although the emergence of special economic zones (SEZs) should help to an extent.

SECTORAL IMPACT

- Lower FBT valuation of 5 per cent on tour/travel expenditure would have a positive impact.
- New semiconductor policy will spur manufacture of high technology IT products.
- Increase in service tax rate and removal of exemptions for call centre, medical transcription, ERP will negatively impact the industry.
- Packaged software will now attract 8 per cent excise duty.
- Any transfer pricing adjustment made to income of a unit in SEZ (special economic zone) would also not be eligible for tax holiday.

CORPORATE IMPACT

TCS/Infosys/Wipro/Satyam/HCL Tech: There's little for India's IT services companies in this Budget. Still, they are happy that some changes have been made to FBT.

Tally Software: Over-the-counter packaged software will now attract an 8 per cent excise duty, which means vendors like Tally will get hit.

HCL Infosystems/Moser Baer/Samsung: Hardware manufacturers are thrilled, especially the semi-conductor industry. "We believe that (the government's decision to invest in chip-makers) promotes the establishment of a complete semiconductor ecosystem. This could eventually promote the development of chips and other hardware for the local market," says Anand Anandkumar, Vice Chairman, Indian Semiconductor Association. He's right. Given its design and development capabilities, India could become an integrated manufacturer.



"On the IT front, the Budget has been neutral. However, the proposed 8 per cent duty on over-the-counter packaged software impedes IT penetration to the vast majority of the masses. The review of FBT by removing certain genuine business expenditure from its purview is welcome."

Nandan M. Nilekani/ CEO/ Infosys Technologies

□ MEDIA & ENTERTAINMENT

Putting On A Great Show



2006 WATCH



THE MEDIA AND ENTERTAINMENT (M&E) SECTOR recorded a strong double-digit growth over 2004, on the back of a 15 per cent increase in print and television advertising and a significant rebound in Bollywood. In fact, 2005 was one of the best years for the Indian film industry, which grew 30 per cent over 2004, as corporates increased their presence across the value chain and multiplexes fuelled growth for this segment. Sustainable growth in GDP and increasing consumer spend on entertainment will continue to attract investments in all segments. Launch of Direct-to-Home services, new TV channels and multiplexes, and development of new media are expected to drive growth. Advertising is expected to grow by 17-18 per cent, driven primarily by the launch of new TV channels and dailies in large markets.

Key challenges for the sector include, among others, a highly fragmented distribution infrastructure that inhibits the ability to provide superior, value-added services, and regulation of TV distribution with controls on the increase in subscriptions charged by broadcasters. Increased penetration of broadband is critical for the TV and internet media.

SECTORAL IMPACT

- Excise duty on manufacture of MP3 and MPEG4 players reduced from 16 per cent to 8 per cent.
- Exclusion of brand ambassador and celebrity endorsement expenses from FBT net should help companies.
- Service tax net broadened to include sponsorship services (minus sporting event) and provision of space or time for advertisements on all media other than print.
- The 16 per cent excise duty on set-top boxes and the increase in customs duty on imported boxes from 15.3 per cent to around 21 per cent will make them costlier.

CORPORATE IMPACT

Zee Telefilms: Tax on sale of space or time for advertisements is bad news for the company, but since the print media has been kept out of the service tax net, it should provide good relief to its publication (*DNA*) business. Tax on sponsorship of events is, again, bad news.

STAR: On the macro front, increase in service tax from 10 per cent to 12 per cent is not a heart-warming news for the M&E sector. To add to the woes, sale of space or time for ads has been brought under the service tax net.

PVR: The worries remain the same for those in film exhibition business. Now any income from sale of space in the cinema hall premises and of time on the silver screen will be taxed at 12 per cent.

Dainik Jagran: The print media has been kept out of the ambit of service tax.



"The service tax has been further increased to 12 per cent. While it's good to widen the net, increasing the rate of tax leads to the slowdown of a particular sector. The rate of tax hike is much more than the growth of the broadcast sector. It is important to maintain a parity within the same industry.

G. Krishnan/ CEO/ TV Today Network



PACE

SETTER

Mastering Chemistry

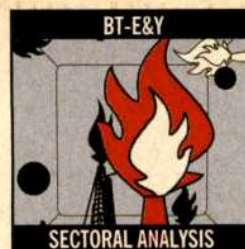
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The Big Variable



2006 WATCH



INDIA IS ONE OF THE FASTEST GROWING ENERGY markets in the world. The demand for petroleum products has grown from 79 million tonnes (MT) in 1990 to 112 MT in 2004-05. Consumption of natural gas has also grown from 12.76 billion cubic metres (BCM) to 30.77 BCM in the same period. Economic growth hinges on adequate availability of energy resources at optimal prices, since commercial energy requirements are projected to double by 2020.

Significant developments have taken place across the oil and gas value chain. The first five rounds of oil block auctions fetched \$5.4 billion (Rs 24,300 crore), and under round six, 55 blocks are on offer. Sectoral milestones include the commencement of LNG imports at Dahej in 2004 and the Shell Hazira terminal in 2005. The establishment of a National Gas Grid and the development of transnational pipelines are key agenda points to develop the sector. The issue of pricing of petroleum products and the subsidy on domestic LPG and PDS kerosene needs to be addressed to not just stem losses of oil companies, but to enable them to make capital investment.

SECTORAL IMPACT

- Setting up a Task Force for development of large petroleum, chemicals and petrochemical investment regions will help industry growth.
- Increase in cess on domestically produced crude oil will hurt oil producing companies.
- FM's indication to address the issue of petroleum subsidies would offer some respite for oil marketers; uniform CST (central sales tax) on domestic LPG will help them too.
- Grant of import project rate of 10 per cent to pipeline projects for transportation of crude, products and natural gas would have a positive impact on the midstream sector.
- Long-standing demands such as grant of infrastructure status and service tax exemption for exploration haven't been addressed.

CORPORATE IMPACT

ONGC/Oil India: Budget 2006 has increased the cess on oil produced by the two companies from Rs 1,800 per tonne to Rs 2,500 per tonne. The government gains Rs 1,800 crore from the cess, which means the oil producers take a hit to that extent.

IOC/HPCL/BPCL: The loss-making oil firms were expecting price rationalisation as recommended by the Rangarajan Committee, but that hasn't happened. A small consolation for them is the "declared goods" status to domestic LPG, meaning that it will attract a uniform 4 per cent central sales tax, as against old rates that varied between 4 and 14 per cent. Given their losses on LPG and kerosene, the oil marketers may not pass on the benefits to consumers.



"(The FM's) speech clearly shows that he is *au fait* with the existing duty and fiscal anomalies, and the importance of restoring the marketing companies to financial health. He refers pointedly to NELP and the Rangarajan Committee, but provides no details."

Vikram Singh Mehta/ Chairman/ Shell India

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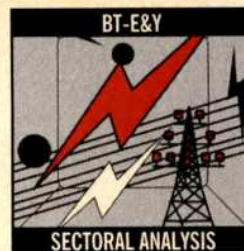
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POWER

Let There Be Light



2006 WATCH



VIVAN MEHRA

IF THERE'S ONE SECTOR THAT'S CRYING OUT FOR investment—more likely of the foreign direct variety—it's power. That's simply because the country is woefully short of power. To bridge the gap, an estimated 100,000 MW of power-generating capacities are expected to be up by 2012, which will call for an investment of \$200 billion (Rs 9,00,000 crore) in generation, transmission and distribution (T&D). Already a host of foreign investors (strategic and financial) have shown interest/made investments in the sector. Growth drivers include reforms initiatives undertaken in several state electricity boards, setting up captive power projects in various industries and initiatives of state governments to set up projects through competitive bidding (Uttar Pradesh has already requested for proposals for the 1,000-MW Anpara C power project). The Ultra Mega Power Projects (4,000 MW each) initiative by the government has also been well received. From Budget 2006, industry honchos had expected modifications in the mega-power policy, and extensions of benefits under sections 80-IA and 10 (23G) till March 2012.



"The FM's proposal to enhance power generation and reform T&D systems is a welcome step. We are disappointed there is no duty cut in the import of equipment for smaller projects. Today, mega power projects of over 1,000 MW enjoy a duty cut. The hike in MAT from 7.5 to 10 per cent will hurt us."

A.K. Srivastava/ MD/ Essar Power

SECTORAL IMPACT

- The proposals for capacity expansion of 15,000 MW by March 2007, awarding five ultra-mega power projects by December 2006, and the de-blocking of 20 billion tonnes of coal reserves are positives.
- A 10-year tax holiday is available for generation and/or distribution, and T&D undertakings (with new network) provided they commence by March 31, 2010. The extension of the tax holiday augurs well.
- Withdrawal of tax exemption for interest and long-term capital gains (on shares in unlisted companies) from investment in power projects may slow down investments.
- Reduction of basic customs duty on naphtha and petroleum coke to 5 per cent is a positive.

CORPORATE IMPACT

BHEL: Will be the major beneficiary of the new five ultra mega power projects of 4,000 MW each, to be awarded before December 31.

NTPC: Will benefit from reforms in the T&D sector. The de-blocking of coal for power projects will help, as it runs coal-based plants.

Suzlon Energy: The wind power company will be a beneficiary of the government's focus on non-conventional energy sources.

Tata Power: The FM's move to de-block coal reserves for power projects in order to meet the fuel shortages will greatly benefit the company.

Power Trading Corp: With power getting the maximum attention year after year, PTC will reap gains from overall focus on generation and T&D.

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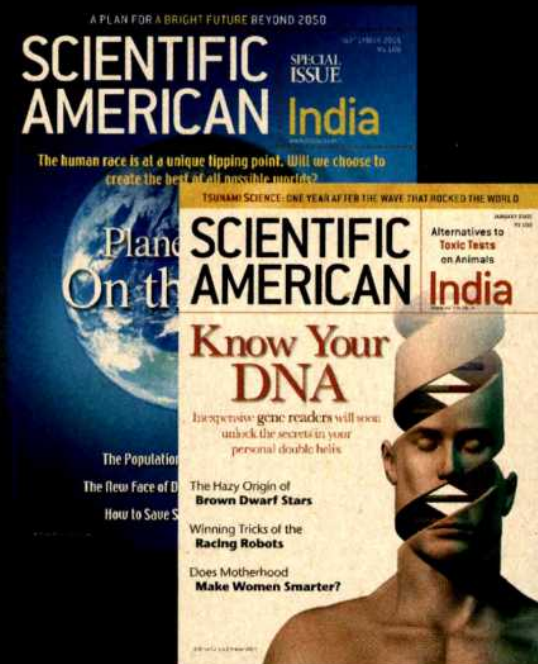


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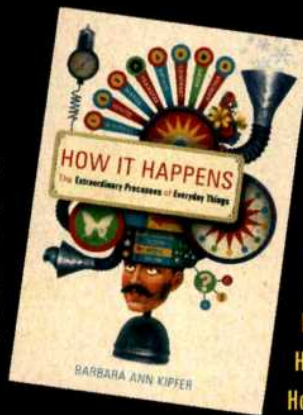
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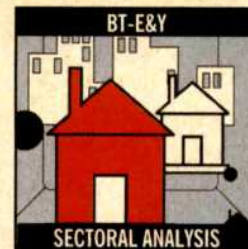
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2006 WATCH



UMESH GOSWAMI

THE INDIAN REAL ESTATE SECTOR IS ON A HIGH growth trajectory. Housing, construction and real estate services grew by over 14 per cent per annum over the last decade to reach the current size of about \$12 billion (Rs 54,000 crore). Growth estimates indicate that the industry has the potential to reach \$45-50 billion (Rs 2,02,500-2,25,000 crore) by 2010. Growth drivers for the sector include overall economic growth and a favourable demographic profile (almost 75 per cent of the population is below 40), increasing urbanisation, higher disposable incomes, easier and cheaper availability of housing finance, growing trend towards nuclear families and changing aspiration levels.

Requirement of commercial office space by the IT/ITES/BPO sector is itself estimated to be 100-150 million square feet over the next four-five years. The residential sector has an estimated shortfall of nearly 20 million housing units and would require investments of about \$25 billion (Rs 1,12,500 crore) over the next five years. On the supply side, the real estate sector is seeing increased support through the availability of institutional funding as debt and equity. Computerising land records will be a big help.

SECTORAL IMPACT

- Withdrawal of tax exemption on earning long-term capital gains and interest income from investment in certain infrastructure projects such as industrial parks could negatively impact investment.
- The time limit for 100 per cent tax holiday for developers of industrial parks (including IT parks) has been extended to March 31, 2009. This could spur investment.
- The proposal to promote establishment of new towns focussed on a specific industry or theme, with initial projects identified in West Bengal and Karnataka, is expected to set the trend for other township developments.

CORPORATE IMPACT

DLF/Unitech/Omaxe: Developers will have something to cheer about with the three-year extra tax holiday. Also, the proposed investment in infrastructure may lead to further boom in the sector. Raising service tax to 12 per cent from 10 per cent will, however, hurt the companies and, in turn, the consumers, who are already paying high prices for real estate. But given the huge unmet demand for housing, purchase is relatively less price sensitive.

Colliers, CB Richard Ellis, Cushman & Wakefield: The hike in service tax to 12 per cent from 10 per cent will hurt real estate consultancies. Since the service tax is levied on the total revenue, the hike will hit the bottomlines of such companies. To be sure, the market is currently booming and, therefore, well capable of absorbing the shock, but things may get ugly in a downturn.



"Overall a balanced and well thought out Budget. The focus on infrastructure, especially on expressways and highways, is noteworthy."

K.P. Singh/ Chairman/ DLF Group

Men At Work



2006 WATCH



SHOME BASU

INDIA HAS THE SECOND LARGEST ROAD NETWORK IN THE world (3.3 million km), but don't let that fool you: Expressways and highways constitute a minuscule proportion of the country's network, which carries the burden of almost 80 per cent of all traffic. The government has planned a massive facelift of the road network in the country over the next 10 years. The National Highway Development Project has been restructured to involve seven phases at a cost of approximately \$40 billion (Rs 1,80,000 crore), of which only phase I (the Golden Quadrilateral), phase II (North-South, East-West Corridors) and phase IIIA have been approved till now. A standard framework for BOT (build, operate, transfer) projects across sectors that clearly delineates entry criteria for prospective bidders is required. Budget 2006 expectations include exemption of MAT (minimum alternate tax) for the roads sector and adequate allocation under the Centre's viability Gap Funding scheme for state highway projects.

SECTORAL IMPACT

- Various policy initiatives for the road sector will have a long term positive impact. These include restructuring of the NHAI, enhanced funding for an accelerated road development programme for the North East, development of access-controlled expressways under the design, build, finance and operate (DBFO) model and thrust on public private participation (PPP) in roads.

CORPORATE IMPACT

Larsen & Toubro: Positive since there's promise of plenty of activity in key areas like roads, power and ports.

IVRCL: With the Finance Minister announcing that 1,000 km of access-controlled expressways will be built under a design, build, finance and operate (DBFO) model, private road development has been thrown open.

Punj Lloyd: Neutral impact largely since pipelines is really the company's business.

Gammon India: Positive impact likely since the government has announced a slew of road projects.

Hindustan Construction Company: Expected to be positive following FM Chidambaram's huge thrust on infrastructure, with road building forming a big part of it. The real impact is expected to be felt in the long-term since most of these road construction projects have long gestation periods.



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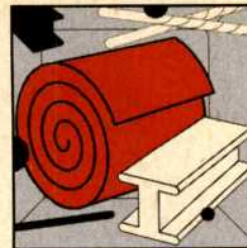


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Iron Impetus



2006 WATCH



VIVAN MEHRA

DRIVEN BY INCREASING SPEND ON INFRASTRUCTURE projects and an overall buoyancy in the economy, the Indian metals sector has achieved high growth rates in the last few years. Between 1995 and 2005, steel production has grown at a cumulative average rate of 8 per cent, while demand stood at 6.3 per cent. With the Indian economy not showing any signs of slowing down and infrastructure development being a key focus area, domestic demand for various metals would remain high. New projects by Posco, Mittal Steel, Tata Steel, Essar, SAIL and the Jindals will cater to that burgeoning need for steel. Capacity expansions are also taking place in aluminium, zinc and other non-ferrous metals. To sustain this impetus, industry expects an increased investment in infrastructure to boost demand. Tax incentives for exploration of mineral oils were also expected in the Budget, as were cuts in customs duties.

SECTORAL IMPACT

- Reduction in custom duty on non-ferrous metals from 10 per cent to 7.5 per cent should marginally impact domestic prices.
- Increase in customs duty on steel melting scrap will positively impact sponge iron units.
- Increase in the minimum alternate tax (MAT) rate will impact future profitability. Currently, companies are paying tax at the corporate rate. However, most of them are undertaking mega investments in greenfield and brownfield capacity expansions, and can come under MAT in the future years.
- Emphasis on infrastructure will positively impact metal companies, especially steel companies.

CORPORATE IMPACT

SAIL: May not make much of an impact since it is an integrated steel manufacturer. Could gain from the infrastructure boom over time.

Tata Steel: Neutral by and large since the real impact will be felt on the scrap users for whom duties have increased.

Hindalco Ind.: Will be negative in the short term since duty on non-ferrous metals will be cut.

NALCO: As aluminium has not been the target, there will be no impact in the long term.

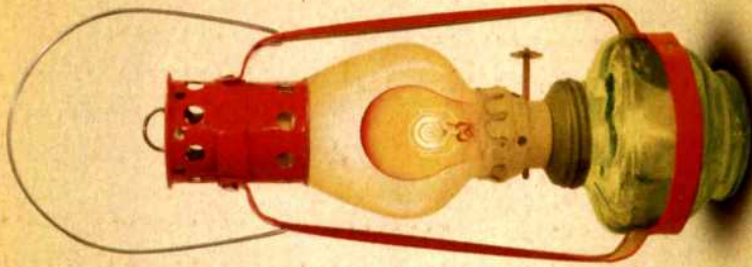
Sterlite Ind.: Minimal impact and it will be business as usual. The real impact will favour firms like Sesa Goa and Mukand.



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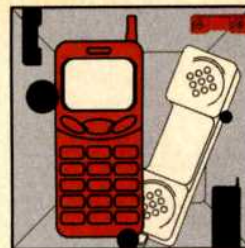
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TELECOM

Ringing In A Revolution



2006 WATCH



SHOME BASU

FOR INDIA'S SURGING TELECOM SECTOR, 2005 WAS A year of significant action. Mobile connections surpassed fixed line connections, teledensity crossed 10 per cent and leading global telecom equipment manufacturers announced plans to start manufacturing facilities in India. M&As were the buzzword in the sector, which wanted extension of tax holidays for new service providers and lower duties on imported telecom equipment. In the coming year, regional telecom players may undergo further consolidation.

As the market matures, operators face challenges in sustaining the current high rate of growth, especially in urban markets. The ever-sliding ARPUS or average revenue per user (currently around \$10 or Rs 450) continue to be a problem area. The industry's big hope: B and C circles, where the penetration levels are still very low, and rural areas, where the teledensity is below 3 per cent. Further, mobile operators and content providers have to come together for 3G services, which hold the key to the next level of wireless growth in India.

SECTORAL IMPACT

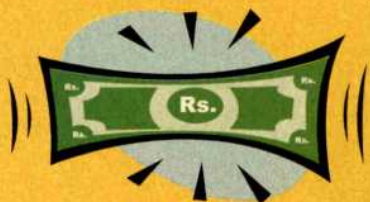
- Withdrawal of long-term capital gains tax exemption for investors in telecom operators may make investment in these companies less attractive.
- Increase in service tax from 10 per cent to 12 per cent, would increase the cost of services for subscribers.
- The proposal to allocate Rs 1,500 crore from the Universal Service Obligation Fund to promote rural telephony will accelerate setting up of telephone exchanges in rural areas.
- Increase in tax rate under Minimum Alternative Tax from 7.5 per cent to 10 per cent will increase the tax burden for telecom operators.

CORPORATE IMPACT

Reliance Infocomm/Bharti/Hutch: The withdrawal of 10(23G) provision under the Income Tax Act (it exempt tax on long-term capital gains) will hurt all the players.

BSNL: The government's budgetary contribution of Rs 1,500 crore towards the USO fund for rural telephony and a target of 50 million rural lines in three years will mean more support to the private sector in rural markets, and more competition to BSNL.

MTNL: Reduction of duty by 16 per cent on set-top boxes will support MTNL's Triple Play via broadband initiative. The telco will launch service by mid-March 2006.



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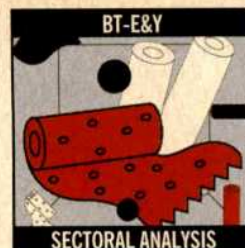
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TEXTILES

Global Gambit



2006 WATCH



SHOME BASU

THE BIG NUMBERS TELL THE INDIA TEXTILES STORY: A sector growth of 18.2 per cent in 2005, a 16 per cent cumulative average growth till 2010 for exports (which translates into all of \$50 billion or Rs 2,25,000 crore), and \$865 billion (Rs 38,92,500 crore) worth of global textile trade—three times the current number—estimated by 2015. Indeed, the dismantling of quota restrictions as mandated by the World Trade Organization has thrown a huge opportunity for large, cost competitive Indian textile manufacturers. The market dynamics favour players with integrated capacities, which explains why the sector is witnessing hectic consolidation. Several textiles companies are also undertaking aggressive programmes of capital expenditure to attain global size and thereby reduce costs and improve margins. India's main advantages are its natural resources and the availability of cheap skilled labour. What could make the industry even more competitive are excise duty cuts in certain segments (from 24 per cent to 16 per cent for instance in polyester filament yarn), and lowering of customs duty on textile machinery to 5 per cent or less.

SECTORAL IMPACT

- Budget 2006 has shown a serious intent towards developing this sector. The proposals include allocating Rs 189 crore for integrated textile parks, launching a Jute Technology Mission and establishing a National Jute Board.
- Streamlining of various duty rates also augurs well. *Ad valorem* component of customs duty on textiles, fabrics and garments has been reduced from 15 per cent to 12.5 per cent. Customs duty on specified textile machinery is to be reduced from 15 per cent to 10 per cent. And the halving of excise duty on all man-made fibre yarn and filament yarn to 8 per cent has been coupled with the withdrawal of exemption on certain textiles items manufactured without the aid of power and metallic yarn.

CORPORATE IMPACT

Indo-Rama Synthetics (India): The maker of synthetic yarns will benefit from the reduction in excise duties on man-made fibres. The downside, though, is the import duty cuts on finished products, which means Indo-Rama might have to contend with overseas competition.

Mahavir Spinning Mills: Budget proposals are neutral for the company as the bulk of its sales come from cotton yarn spinning. However, duty cuts on man-made fibres come as a consolation.

Century Enka: Cut in excise and customs duties would benefit it. But cuts in customs duty on man-made fibres and yarns will impact margins.

Raymond: Sops for apparel parks will benefit Raymond, which has two export-oriented apparel units in Bangalore.



"The reduction in duties on filament yarn will benefit us very partially as we do not make much use of them. However, the proposal to establish textile parks and the concessions that come with it can attract a lot of investment. Arvind Mills will seriously consider the option of investing in these parks."

Sanjay Lalbhai/ MD/ Arvind Mills



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■ E&Y COLUMN

Implementation Holds The Key

The Budget is a roadmap; the FM has to ensure delivery



Rajiv Memani

CEO & Country Managing Partner,
Ernst & Young

THE BACKDROP TO BUDGET 2006 has been extremely positive. The gross domestic product (GDP) has been growing at over 8 per cent (compounded annual growth rate) for the last three years, the stock markets are booming, the inflation rate is modest, interest rates are low and stable, business confidence is robust, the savings and investment rates are high and there is greater global recognition of the emergence of India as a key investment destination, alongside China.

Finance Minister P. Chidambaram had two options:

- a) To ride on the great performance and push through some tough reform measures; or
- b) To leave the applecart undisturbed and not radically change what has worked well.

Given the context of the Budget and the dynamics of coalition politics, Chidambaram chose the second option and rightly so. This is a good tactic and will hopefully be followed by solid reform measures to liberalise foreign direct investment (FDI) norms, labour laws and the subsidy regime during the course of the year (after the elections in five states).

The Finance Minister mentioned that India is now targeting a growth rate of 10 per cent per annum, which I feel is achievable. However, in my mind this is

squarely dependant upon the implementation of some tough reforms measures which encompass sound fiscal management, development of infrastructure, capitalising on the demographic dividend and strengthening of the rural economy.

A lot has been said and discussed about the fiscal and revenue deficits, the tax to GDP ratio, widening of the tax base and future targets for fiscal discipline. It is imperative that we achieve the targets of the Fiscal Responsibility and Budget Management (FRBM) Act sooner than later.

The downside of a lack of fiscal discipline will be a negative impact on inflation, interest rates, the exchange rate as well as availability of capital for infrastructure development and a deterioration in the competitiveness of capacity additions being made across industries by Indian corporates (which need to be competitive vis-à-vis the capacity building that is taking place elsewhere in the world and, particularly, in China). In my mind, the priority accorded to these issues in the Budget and in various other fora by the Prime Minister and the Finance Minister indicates that they are very focussed on ensuring the fiscal health of the economy despite various coalition pressures.

India cannot afford a delay in infrastructure development. This

Budget has taken the previous year's initiatives on infrastructure forward with higher outlays and allocations, without announcing anything new or innovative. The implementation of schemes announced in the past (setting up of an infrastructure SPV, or special purpose vehicle, to fund projects, the Urban Renewal Mission Project and Viability Gap Funding Scheme) for which Rs 17,000 crore was set aside last year, has been slow, with no tangible, on the ground benefits in the last 12 months (three road projects in Gujarat are under consideration for viability gap funding). The removal of Section 10 (23G) benefits for infrastructure projects is a disappointment considering the focus on infrastructure and the dire need for private sector participation and investments to add capacity.

The current and future requirements and the consequent challenge of augmenting capacities in various segments of infrastructure is daunting. The Budget indicates a modest growth in power generation of 4.7 per cent in 2005-06. We currently have a peak shortage of 12 per cent and overall shortage of 8 per cent with an estimated power build

requirement of 100,000 MW till 2012. This calls for an investment of \$200 billion (Rs 9,00,000 crore) across generation, transmission and distribution capacities. The Budget target of adding approximately 40,000 MW of capacity over the next three years is along the right lines, but given our experience in implementing large projects, looks ambitious.

The oil and gas sector has its fair share of challenges which include pricing of petroleum products (high subsidies), high import dependence on external energy sources (for both oil and gas), massive investment requirements across the value chain in exploration and production (E&P), refining capacity, pipeline networks, liquefied natural gas (LNG) terminals and the like. An integrated energy policy that balances various fuel requirements to sustain economic growth needs to be implemented urgently.

Other segments of infrastructure, be it roads and highways, ports, airports, Special Economic Zones (SEZs) and water bear out the same story in terms of massive investment needs to augment supplies. The National Highway Development Programme (NHDP) has been largely successful in meeting its targets and there has also been some success in improving port infrastructure. The SEZ programme has met with an encouraging response though it is still early days, while the story on airport privatisation seems to be finally getting back on track. However, the water sector appears neglected and the foreseeable problems are ominous.

The Budget has made impressive outlays across these sectors. The challenge for the government is to provide the right policy framework and environment to attract private capital, both domestic and foreign, to meet our investment needs (FDI in India was \$4 billion (Rs 18,000

crore) in calendar 2005 till November, compared to \$60 billion (Rs 2,70,000 crore) for China in 2004).

Infrastructure creation must be accorded top priority by the government, otherwise it can become a serious roadblock to economic growth. We need to approach this problem in a structured manner with clear targets and accountability for all participants. The government has a key role to play in ensuring a high level of coordination between the Centre and the state governments and across various ministries.

Another key growth driver in the future will be our "demographic dividend", which until 5-6 years ago was seen as a liability. Today, skilled Indian employees—engineers, software consultants or accountants—are being sought for employment across the world. Various projections indicate that India will be a global supplier of skilled manpower to the rest of the world for the next 15-20 years given the advantage of our population structure (over 75 per cent below 40 years of age) compared to an ageing and declining population in the developed world.

Our growing working population is already and will increasingly be a key driver of domestic demand. We need to capitalise on this advantage in the years ahead. The Budget outlays on education and health, at Rs 24,115 crore and Rs 12,546 crore, respectively, represent an increase of 31.5 per cent and 22 per cent, respectively, over the previous year. Education spends are critical to augment capacity and supply of a competitive workforce, and need to be targetted at all levels of education (Budget spends are largely targeted towards primary education). We also need to implement a better delivery and measurement mechanism to ensure efficacy of these spends and also

to proactively engage the private sector through public-private partnership (PPP) initiatives.

As witnessed in the last general elections, sustainable economic growth and "good economics" can translate into "good politics" through growth which is inclusive of the rural sector. The Budget has increased allocations and targets for the Bharat Nirman programme by 54 per cent to Rs 18,696 crore and also to other programmes aimed at augmenting rural irrigation, electrification, roads, drinking water, tele-density, etc.

The Finance Minister has also allocated Rs 14,300 crore for rural employment under the National Rural Employment Guarantee Scheme, and additional funds under the National Rural Health Mission. An increased allocation has also been made for agri-credit coupled with interest relief for farmers. Food processing has been identified as a sector for priority bank lending.

Whilst these initiatives are welcome, the distribution mechanism of capital from the Centre to the local levels is suspect. It is well known that massive leakages of resources take place along the way, resulting in a much diluted impact on the final beneficiaries. As highlighted above, there needs to be a radical change in the delivery and monitoring mechanism to assess the efficacy of these spends and to ensure the desired results.

In my mind, this, and the last few Budgets, has been directionally and strategically sound. In the short term, the economy will ride on the current momentum. However, how things play out in the medium term will depend upon performance measuring up to plans. The need of the hour is speed of execution, and good governance so that Indians can see a rise in per capita incomes and a perceptible improvement in their standard of living across all socio-economic segments. ■

■ PERSONAL TAX

Maintaining A Status Quo

By not imposing fresh taxes, the Finance Minister has made everyone's lives a little easier.

AS THE BUDGET APPROACHES, the individual taxpayer waits with trepidation. His heart is filled with a strange mixture of hope and fear. Hope that the Budget proposals will bring relief; fear that the proposals will further eat into his post-tax earnings. No pragmatic and well-informed individual would have expected much from the Budget this year, especially following the upward shift in the income tax slabs last year. However, no matter how pragmatic we are, we still always hope for some magic, some proposals that will bring cheer to our lives.

But the Finance Minister has maintained absolute status quo in his Budget 2006 proposals. A section of taxpayers are relieved that there are no new taxes and that they will not have to shell out more money in the coming financial year. Another section of taxpayers is disappointed that they have not been provided further relief, despite the buoyancy in personal income tax revenues this fiscal.

The abolition of the one-by-six scheme is more a relief to the tax department than to the taxpayer. The huge number of returns that had to be processed was an onerous burden on the already overloaded department. Moreover, with the Annual Information Return (AIR) coming into play, the

government now has an alternative, and perhaps more reliable, mechanism for tracking tax evasion compared to the one-by-six scheme. So bye-bye one-by-six and welcome AIR!

The Budget makes long-term bank deposits an additional savings instrument eligible for deduction under Section 80C. This inclusion appears to bring fixed deposits (FDs) at par with investments in mutual funds (MFs). Banks have faced a run on their FDs as more and more people have been attracted towards MFs since they have been giving much higher returns and are now considered a reasonably safe avenue for investment. There is a hope among bankers that this inclusion, coupled with an increase in interest rates, might bring some money back into FDs. With the boom in the stock markets continuing, it remains to be seen how much money gravitates towards FDs following this move. However, it does add to the investment choice of an individual taxpayer, though the five-year lock-in period may be too stringent for his taste. Moreover, since the overall cap of Rs1 lakh remains unchanged, in most cases, this will, at best, result in reallocation of savings rather than an increase in savings. Overall, this inclusion may bring very marginal relief and might be limited to taxpayers who have been falling short of the Rs 1 lakh limit previously. In addition, there is

Amitabh Singh

Partner (Human Capital), Global Tax Advisory Services, Ernst & Young

ambiguity on the fate of premature or post-maturity withdrawals, that is, whether such withdrawals will be subject to tax or not.

The proposal for removing the cap of Rs 10,000 on pension contributions under Section 80CCC is a welcome one. It was always felt that Rs 10,000 was too meagre an amount to create any meaningful post-retirement annuity. The cap ended up diverting savings towards instruments listed under Section 80C rather than pension funds. This had also adversely impacted the business of insurance companies that had pension products in their portfolio. Considering that all investments under Section 80C and Section 80CCC were bound by an overall deductible limit of Rs 1 lakh, there was no sense in having a sectoral cap. Thankfully, the same has been removed and one can now get greater tax benefits for pension contributions. It would have been good if the overall deductible limit had been increased to Rs 1.5 lakh, but this has not been done.

The Budget proposals also contain provisions for "tax return preparers". This has noble intentions and could lead to better and more accurate tax compliance. Many other countries, including the US,



have similar provisions. Normally, the tax return preparer, who is a licensed person with requisite skills and qualifications, countersigns the tax returns along with the taxpayer. This makes the tax return preparer somewhat accountable for any inaccuracies or mis-statements in the tax returns. In case similar provisions are made in India, I really doubt how popular this scheme will be considering the amount of non-compliance and evasion. However, as an overall policy, this is a welcome move and will allow taxpayers to reach out to duly certified professionals and, thus, be assured of some reasonable standards of tax advice, hopefully at a nominal fee.

The cost of equity transactions will go up as a result of an across-the-board 25 per cent increase in the Securities Transaction Tax (STT). With the stock market so buoyant, the government could have retained the earlier rate and yet generated more revenues in the coming fiscal year. As things stand currently, the stock market has generally yielded bounties to the retail investor and as long as these bounties continue, the individual investor will not grudge this additional payout. Perhaps this is the precise thought that has encouraged the Finance Ministry to propose this increase.

There has been a lot of media coverage on the introduction of exempt-exempt-tax (EET) basis of taxing savings. The present Budget

is silent on this. The FM did not even mention it in his speech. Assuming that this is very much on the cards, one can expect these proposals to be introduced in the Monsoon Session of Parliament when the Income Tax Amendment Bill is proposed to be introduced. For taxpayers, there is a temporary sigh of relief since the EET-based taxation will bring many savings instruments that are currently exempt-exempt-exempt (EEE) under the tax net.

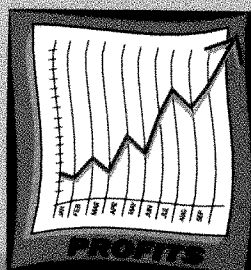
Some rationalisation has been proposed in the Fringe Benefit Tax (FBT) provisions. Nothing in the recent past has exercised the entire corporate world as much as the introduction of FBT. While much was expected to be done, very few changes have actually been proposed. To the individual's relief, an employer's contribution to approved superannuation funds has now been exempted from FBT up to Rs 1 lakh per employee. According to the Finance Ministry, this will bring relief to over 95 per cent of employees. This is a welcome step and will receive applause from the industry as well as employees. Many companies had terminated or suspended their superannuation schemes in the wake of the FBT provisions last year and there is a general expectation that a majority of these will now be revived, which will be a relief to many insurance companies as well.

The Budget proposals seek to reduce the time limit for completing

an assessment from 24 months to 21 months. This may seem to be a measure to make the tax department more efficient. The concern that I have is that this will create inordinate pressure on assessing officers to complete the assessments within the reduced time, which could lead to arbitrary and often high-pitched assessments. Reduction of time limits should be coupled with better infrastructure and resources within the tax department in order to make taxpayer services more effective and taxpayer friendly.

The indirect tax provisions present a mixed bag and the consumer may feel the pinch as prices of cooking oil and some services go up. Prices of aerated drinks and ice creams will fall and this will help him maintain his cool in the coming summers!

On an overall basis, one is relieved that the individual taxpayer does not have to pay higher income taxes compared to the previous year. To be fair, the FM did not have too many options to dole out largesse to taxpayers. One just hopes that all the funds that are committed to improvement of social infrastructure like roads, water, sanitation, power, public health, education, etc. are utilised effectively and if that happens, I am sure the taxpayer will not grudge paying that extra rupee to the government coffers. We now wait for the Monsoon Session of Parliament as to what lies in store for the individual taxpayer. ■

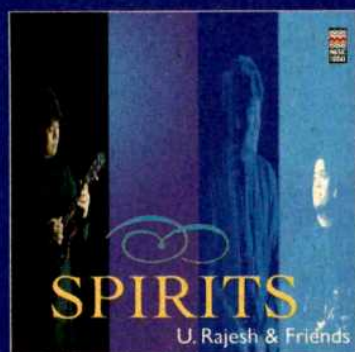


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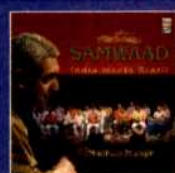
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■ DIRECT TAXES

Steady Hand At The Helm

Despite some disappointments, the Budget reflects an overall stability in the tax regime.

FINANCE MINISTER P. Chidambaram presented the Union Budget for 2006-07 from a position of strength. The economy has never looked this strong—three years of broad-based growth, fiscal deficit at 3.8 per cent of gross domestic product (GDP), moderate inflation in spite of high oil prices, healthy foreign exchange reserves and a confident India. The rise in the tax to GDP ratio to 10.5 per cent and an almost 19 per cent increase in tax collections over last year augur well for the future. With this background, the Finance Minister has gone with the “steady hand at the helm” approach to the Budget.

Specifically, on corporate taxes, there is the good, the bad and what could have been.

First, the good bit. There is no new tax proposal and no increase in existing corporate tax rates. Further, the 10-year tax holiday provided to certain types of industries operating in the infrastructure development sector has been extended. In respect of industrial park developers, the holiday has been extended to March 31, 2009, while for power projects it has been extended to March 31, 2010. The income tax exemption on lease rents paid to foreign enterprises for aircraft and aircraft engines taken on lease has been extended till March 31, 2007. With both

public and private sector airlines lining up leased planes, this is a welcome move. The exemption from levy of dividend distribution tax, which was earlier available only for open-ended equity oriented funds, has now been extended to all equity-oriented funds. Hopefully, this will further fire up the stock market.

Now for the not so good bit. The ill-conceived Fringe Benefit Tax (FBT) continues and the amendments proposed only marginally alleviate the concerns of the corporate world. Also the Banking Cash Transaction Tax has been kept as it is. The Finance Minister referred to its utility, but the same purpose can be achieved by the banks sending the information to the tax authorities without charging tax.

And the flip side. The scope of the Minimum Alternate Tax (MAT) has been widened to include tax on long-term capital gains from sale of listed securities. This is clearly double taxation. In the first place, both the buyer and seller pay Securities Transaction Tax (STT) on the purchase and sale, respectively. Under MAT, they effectively pay tax twice. Further, the basic rate has been increased from 7.5 per cent to 10 per cent. The silver lining is that the tax paid under MAT can now be carried forward and offset against regular tax over



Gaurav Taneja

National Director, Global Tax Advisory Services, Ernst & Young

seven years instead of five years.

A lot has been said in the Budget about the infrastructure sector, but the withdrawal of Section 10(23G) is a step back. The buoyancy in the capital markets seems to have prompted the increase in the STT by 25 per cent, but that is exactly the reason the rate should not have been increased. If you are mobilising reasonable tax revenues, why increase the tax rate?

Now to some of the expectations which have not been met. Multiple levy of dividend distribution tax in a multi-tier corporate structure has been a long-standing issue and was not addressed this year. Greater clarity on cross-border tax issues, such as taxation of software, satellite transmission, media broadcasting and bandwidth charges was expected. There has been a long-standing request for simplification of the Income Tax Act but again, there was nothing this year. One presumes that the work being done by four separate internal income tax groups in these areas will see the light of day during this fiscal.

On the whole however, this Budget generally reflects stability in the tax regime. ■

INDIRECT TAXES

GST A Good Idea

The FM has to follow his vision to its logical end.



Vivek Mishra

Partner (Indirect Tax), Global Tax Advisory Services, Ernst & Young

THE SERVICE TAX HAS SEEN the maximum changes in Budget 2006. It has been increased from 10 per cent to 12 per cent; and 15 new services, including the maintenance or management of ATMs, sale of time and space for advertisements (other than in print media and sales of time slots by broadcasters), sponsorship of events (except for sporting events), etc., have been brought under its net. Also, the scope of various existing service categories has been proposed to be widened. The exemption available to services provided by call centres and medical transcription centres has been withdrawn. Detailed rules will be introduced in the near future to determine the value of services where they are not ascertainable. These hold considerable potential for litigation, and one will do well to keep a sharp eye on this.

The levy of service tax on import of services has been replaced with detailed reverse charge provisions. Also, it appears that services provided by the head office of an organisation located outside India to its branch office located in India

will attract service tax. Clarity on the export regime, including the rebate mechanism introduced last year, was expected, but the Budget is silent in this regard.

The peak basic customs duty rate on non-agricultural products has been reduced from 15 per cent to 12.5 per cent in line with goal of aligning it with the ASEAN rate. However, a countervailing duty (CVD) of 4 per cent has been imposed in lieu of sales tax/value added tax (VAT) with a few exceptions like petroleum crude, kerosene, diesel, etc. The concessional customs duty rate of 10 per cent available for project imports has been extended to projects for transportation of crude oil, petroleum products and natural gas. Customs duties on raw materials and intermediaries for various industries have been lowered to provide impetus to the domestic manufacturing industry. The customs duty structure for various IT sector goods has also been amended. Following the imposition of 12 per cent excise duty on computers, the 7 per cent CVD has been withdrawn.

The excise duties on small cars and aerated water have been reduced

from 24 per cent to 16 per cent. Cess levied on domestically produced petrol has been increased from Rs 1,800 per tonne to Rs 2,500 per tonne. The oil producing companies will absorb this cess, so it will have no impact on the retail prices of petroleum products. The excise duty on cigarettes has been hiked by 5 per cent. Excise duty of 12 per cent has been imposed on computers in order to allow manufacturers to avail cenvat credit. Further, a duty of 8 per cent has been imposed on packaged software.

A snapshot of the Budget shows several changes in indirect taxation. This reintroduction of multiple rates of excise duty is worrying. There is also ample room for litigation on the service tax front. The finance minister has mentioned the possibility of a transition to a unified Goods and Services Tax by 2010. These are very encouraging statements. Now, the government has to hold the course to achieve these goals. ■

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The Budget proves again that no news is good news. With very little change, investors can continue to build wealth calmly.

ANAND ADHIKARI, NITYA VARADARAJAN AND SAHAD P.V.

WHAT IMPACT WILL Budget '06 have on your investment portfolio? Practically none. That seems like a total non-statement, but P. Chidambaram has ensured just that—his Budget is low-key and low-impact.

"It's not a Budget that will make headlines," says Jayant R. Pai, Vice-President (Institutional Equity Sales), Parag Parikh Financial Advisory Services. Chidambaram has maintained status quo practically everywhere, from personal taxation to real estate to small savings. After that first faint feeling of anti-climax, you soon realise that what you should really be feeling is relief. Relief that the stock market is still rising happily; relief that capital gains tax has not been touched; that small savings avenues have not been hit further; that EET (exempt-exempt-taxed) has not been introduced.... No wonder they say no news is good news.

So, after this Budget, how should you handle your investment portfolio? First, there's no need to feverishly reallocate your funds; things are chugging along just fine. As Pai says: "Chidambaram seems to be saying, 'The economy is doing fine; why should I change the script?'"

Let's take a look then at just how you can sit down quietly and tweak your portfolio mildly to make the most of the prevailing winds.

Equity And Debt

First, let's look at equity. Play it safe, seems the message here. While Dalal Street, cruising at 10k, has nothing in particular to cheer about, small investors and depositors have been given the go ahead for long-term investments in the financial market.

Tax-free dividends, earlier available



RAMEN SARKAR



EQUITY TO DEBT: The Budget initiates clear measures to deepen the debt market by raising FII inflows

MUTUAL FUNDS: Investors with a long-term horizon now get tax-free dividends on close-ended schemes

only on open-ended funds, have been extended to close-ended equity schemes as well. However, these funds' limit of investment in equity has been increased to 65 per cent from 50 per cent. Therefore, any equity-oriented fund that has less than 65 per cent in equity has to pay both dividend distribution tax and capital gains tax. "This is not such a good move," says Gaurav Mashruwalla, Certified Financial Planner, "funds will unnecessarily invest more in equity in order to avoid paying the tax, thus becoming

more risky instruments for investors."

However, close-ended schemes will now move into the limelight, and as Ved Prakash Chaturvedi, CEO, Tata Mutual Fund, says: "Investors with longer term horizon can now explore close-ended schemes."

Another plus for investors is Chidambaram's move to allow mutual funds to invest in exchange traded funds overseas. The ceiling on overseas instruments has been raised from \$1 billion (Rs 4,500 crore) to \$2 billion (Rs 9,000

crore), and the 10 per cent reciprocal share holding condition has been removed. Qualified mutual funds can invest up to \$1 billion in overseas exchange traded funds. "This is a good diversification strategy," says Chaturvedi. With global indices soaring, the Indian investor will get the chance to protect his portfolio from the risk of investing in a single market.

Investors can also look at pension schemes of insurance companies, as the cap of Rs 10,000 under Section 80CCC has been abolished



VED PRAKASH CHATURVEDI
CEO/Tata Mutual Fund

"ALLOWING MUTUAL FUNDS TO INVEST IN OVERSEAS EXCHANGE TRADED FUNDS IS A GOOD DIVERSIFICATION STRATEGY"

STUART PURDY
MD/Aviva Life Insurance

"THE MOVE (WHEREIN INVESTORS CAN INVEST RS 1 LAKH IN PENSION SCHEMES IF THEY WISH) WILL ENCOURAGE LONG-TERM SAVINGS"



2006 BUDGET

SOUMIK KAR



REAL ESTATE: No direct sops but the Budget has enough indirect investments to keep the boom going



GOLD: Continues to glitter on indications that prices will remain firm for the next two to three years

and pension funds pushed into Sec 80C. Investors can invest the entire Rs 1 lakh in pension schemes if they so wish. "This will encourage long-term savings," says Stuart Purdy, Managing Director, Aviva Life Insurance.

The Budget has also given a clear signal for the revival of the debt market. "The FM has taken clear measures to deepen the debt market, although the results will become evident only after a year or so," says Pai. The move to hike the FII debt limit from \$1.7 billion (Rs 7,650 crore) to \$2 billion (Rs 9,000

crore) will attract new players and increase funding avenues for companies. This will indirectly benefit small investors, as funds and even individual companies expand debt market opportunities. "This will help the bond market structurally; and increase liquidity," says Russell Parera, Executive Director, KPMG.

While the Budget has no direct benefits for equity trading, a lot of proposals indirectly benefit the market. "The continued focus on infrastructure and agriculture will help the economy grow further," says Asit Koticha, Managing

Director and CIO, ASK Raymond James. Very broadly, sectors like food processing, packaging, textiles, automobiles and IT look good because of the budgetary encouragement.

For The Risk-averse

For the risk-averse investor, the Budget is neutral. It maintains the status quo on administered rates for small savings schemes, itself a huge relief, but expected, since the Reserve Bank of India had already signalled the hardening of interest rates. "Small investors can heave a

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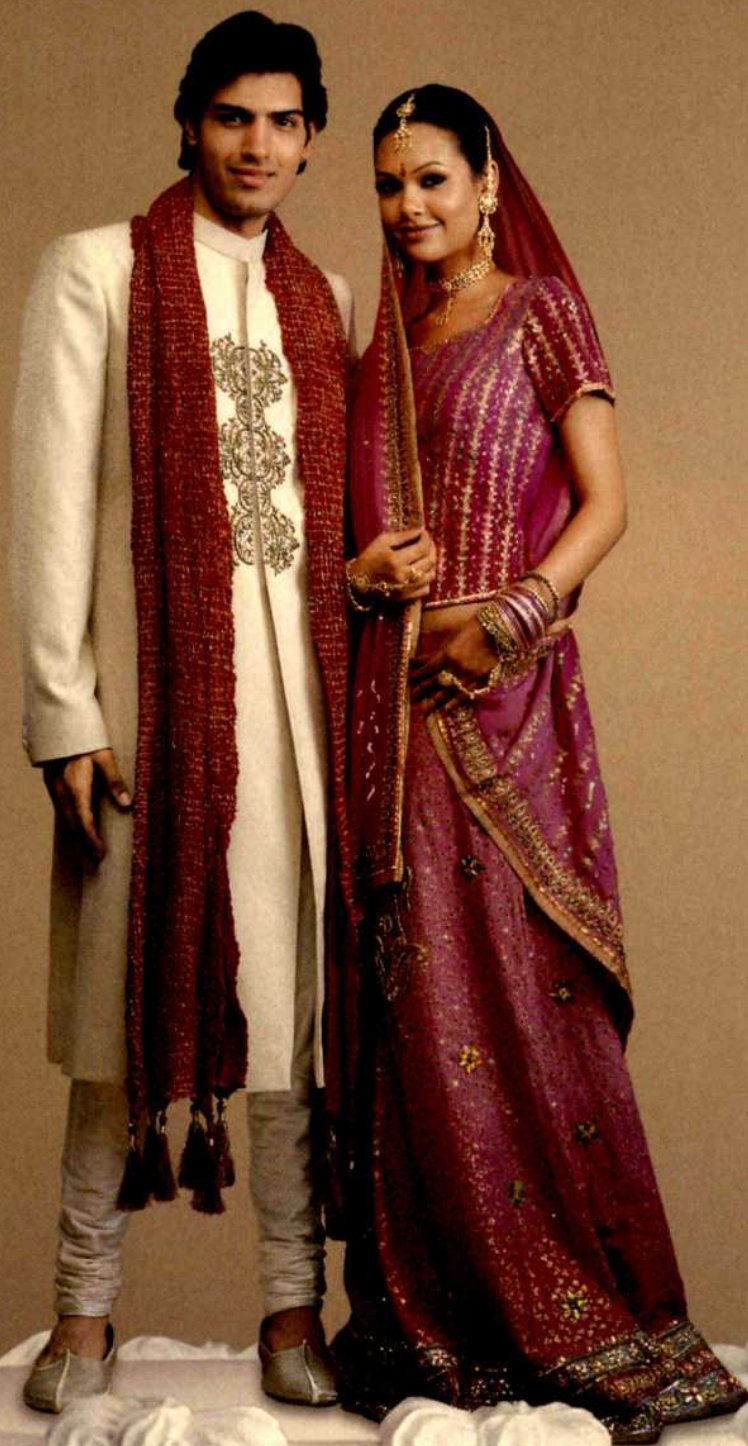
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RUSSELL PARERA
Executive Director/KPMG

"THE MOVE TO HIKE THE FII DEBT LIMIT TO \$2 BILLION WILL HELP THE BOND MARKET STRUCTURALLY, AND INCREASE LIQUIDITY"



sigh of relief," says Rajiv Bajaj, Managing Director, Bajaj Capital.

But the bad news for these investors had come a while before the Budget. Last fortnight, the government withdrew the 10 per cent maturity bonus on post office monthly income schemes (POMIS) with effect from February 13, 2006. So a POMIS depositor who enjoyed an effective annual pre-tax yield of 9.3 per cent will now earn only 8 per cent. The good news is the rate of penalty on premature closure of POMIS was reduced from 3.5 per cent to 2 per cent (between one and three years) and 1 per cent (after three years).

Then, of course, there are long-term fixed deposits (FD), which the Budget has removed from the taxable bracket to the ubiquitous Section 80C; but this is applicable only to five-year deposits. As Bajaj says, very few people go for long-term FDs anyway. Worse, as Mashruwala says: "If you have to

lock your funds for five years, you might as well go for National Savings Certificates (NSC) with six-year lock-ins but 8 per cent returns."

The Budget provision clubbing pension fund investments under Section 80C means you can now invest much more than the earlier Rs 10,000 in your retirement planning, which is a blessing, but it also means your tax-free investment quantum is being steadily reduced.

For now, POMIS remains attractive with 8 per cent returns and a lock-in of six years compared to 15 years for the Public Provident Fund. The effective yield on NSCs is also 8 per cent while the Kisan Vikas Patra offers 8.41 per cent compounded returns. The interest on Employee Provident Funds is a little higher at 8.5 per cent for this fiscal, while the senior citizens savings scheme offers 9 per cent.

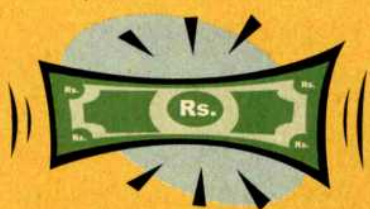
The big, big relief is the non-arrival of the dreaded EET system. If it had been launched, small in-

vestors would have had to pay tax on their investments at the withdrawal stage which would have been a huge blow.

The Golden Goose

There's nothing to indicate that the present trend in the demand for gold will change. This means prices will continue to go up. This should gladden the heart of every Indian investor, who is secretly a gold hoarder at heart. An NCAER (National Council of Applied Economic Research) study done a few years ago showed that the average Indian household invested 2 per cent in stocks, 2 per cent in mutual funds, 20 per cent in banks, and 10 per cent in gold. So rejoice.

Gold prices and consumption are typically related to weak dollar expectations, some amount of increased inflation in the domestic market, and generally bright growth prospects for the economy at large. Given that these factors remain



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2006 BUDGET

relevant, gold prices are likely to remain firm for the next two to three years. And if demand exceeds supply, prices are bound to increase further, say experts.

Besides, Indians have always considered gold a good hedge against currency risks. What this means is that since they could invest only in Indian rupees, gold was always a good risk diversification option. And a 10-15 per cent asset allocation in gold is always advisable.

In 2003, 80 per cent of the gold that came into the market went into jewellery and 15 per cent into coins and bars (sold by banks). Last year, coins and bars accounted for 18 per cent, so, more gold is evidently being purchased for investment purposes. The Multi Commodity Exchange has introduced a one-week contract for gold trading, where the retail investor can buy even small amounts of gold and either take physical delivery or keep it in demat form. "Investors will be further helped by gold exchange traded funds," says Sanjeev Agarwal, Managing Director, World Gold Council (Indian subcontinent).



SHOME BASU

GOOD NEWS FOR THE AVERAGE INVESTOR: Bank FDs are now in Sec 80C, small savings stay untouched, and there's no EET either

From Rs 5,000 for 10 grams two years back, gold has risen to about Rs 8,000. Yes, gold continues to glitter.

The Lure Of Land

The Budget does not give any direct sops nor slaps to the real estate investor. But for optimists, there are budgetary measures that do indirectly help the sector. First is the decision to develop 1,000 km of access-controlled expressways. The areas identified for this are Vadodara-Mumbai, Delhi-Chandigarh, Delhi-Jaipur, Delhi-Meerut, Delhi-Agra, Bangalore-Chennai and Kolkata-Dhanbad routes. Improved access

and transportation is the base for real estate development, so this year's Budget puts in place a foundation for a robust real estate boom in these areas. Then, there are the metro rail projects planned for Maharashtra, MP and Gujarat. "Transportation is key for housing development," says Anshuman Magazine, Managing Director (South Asia), CB Richard Ellis. Of course, real estate continues to be a high net worth investor's domain, as it is both risky and illiquid, but returns promise to stay big over the near term.

Overall, investors can't cavil at the Budget. ■

BUDGET '06: NIPS AND TUCKS

BEFORE

- Bank FDs taxed
- Under Sec 80CCC, pension fund investments of up to Rs 10,000 deductible from taxable income
- PAN number beginning to be quoted widely
- Banking Cash Transaction Tax introduced
- FII investment in govt debt: \$1.75 billion (Rs 7,875 crore)
- FII investment in corp. debt: \$1 billion (Rs 4,500 crore)
- No investor protection fund
- Securities Transaction Tax: 0.1-0.2 per cent
- Tax-free dividends only for open-ended funds
- Funds with less than 50 per cent in equity to pay dividend distribution and capital gains tax

AFTER

- Bank FDs over five years come under Sec 80C
- Sec 80CCC abolished; pension fund investments brought under Sec 80C
- PAN number to be made mandatory for several more transactions
- Banking Cash Transaction Tax retained
- FII investment in govt debt: \$2 billion (Rs 9,000 crore)
- FII investment in corp. debt: \$1.5 billion (Rs 6,750 crore)
- Investor Protection Fund, supported by fines and penalties, and under aegis of SEBI launched
- Securities Transaction Tax increased by 25 per cent
- Tax-free dividends extended to close-ended funds as well
- Funds with less than 65 per cent in equity to pay dividend distribution and capital gains tax



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What's Cheaper,

Small cars get cheaper, but luxury travel gets

Small Cars: Excise duty on small cars, length not exceeding 4,000 mm and with an engine capacity not exceeding 1,500 cc for diesel and 1,200 cc for petrol cars, has been reduced to 16 per cent from 24 per cent. Two-wheeler owners can now think of moving up to four wheels. And that's a lot of two-wheeler owners to convert.

Aerated Drinks: Coke and Pepsi may just lower prices, thanks to an 8 percentage point cut in excise to 16 per cent. The two cola majors had increased prices twice last year.

Condensed Milk/Ice Cream: This product category has been fully exempt from excise duty. Expect prices to come down soon.

Fish, poultry and meat preparations: These have also been exempt from excise duty.

Ready-to-eat packaged food and instant mixes: Excise duty has been halved to 8 per cent. Granny might not like it, but it will make the working mom's life much easier. Thank god, for the microwave.

Pectins, Pastas and Yeast: Excise duty on these items has been brought down to zero. You can enjoy jams and jellies, cake, pastries and other bakery items better now.

Footwear: The FM has reduced excise duty on footwear with retail sale price between Rs 250 and Rs 750 from 16 per cent to 8 per cent. A welcome step for women at large (most of their footwear is priced in this range), although men might feel a bit neglected.

Life-saving drugs: Customs duty on certain life-saving drugs, kits and equipment has been cut from 15 per cent to 5 per cent. These drugs, to be notified later, will also be exempt from excise duty and countervailing duty.

Anti-AIDS and Anti-Cancer medicines: Customs duty on 10 anti-AIDS and 14 anti-cancer drugs has been reduced to 5 per cent. Again, these have also been exempt from excise and countervailing duties.

DVD, flash and combo drives: No excise duty at all. Your PC just got better.

Textiles: Excise duty on all man-made fibre yarn and filament yarn has been cut from 16 per cent to 8 per cent. Also, import duty on all man-made fibres and yarns has been brought down from 15 per cent to 10 per cent.

LPG stoves: So far, LPG stoves up to the value of Rs 2,000 attracted excise duty of 8 per cent. This concessional rate has now been extended to all LPG stoves, with no limit on the value.

Compact fluorescent lamps: Excise duty has been slashed from 16 per cent to 8 per cent. Finally, these energy-saving lamps may become more affordable.

What's Dearer?

pricey. BY ARCHNA SHUKLA AND ANAND ADHIKARI

Cigarettes: Once again, the budget increases the excise duty on cigarettes by 5 per cent. Smokers will directly feel the impact. Funnily enough, the more harmful *gutkhas* have been spared. But guess what? No price is too high for die-hard smokers.

Personal Computers: Although Chidambaram mentioned that the 12 per cent Excise on PCs (reintroduced this year) will be Cenvatable, some analysts say it will push up prices marginally. But then, cheaper DVD drives may offset the hike, if any.

Packaged Software: Popular accounting software like Tally may have just become dearer. (Others like Trend Micro, which sells anti-virus software, will also be affected.) That's unfortunate for the small vendors, who are trying to offer locally relevant software.

Glassware: Budget-conscious dinner tables will no longer be partial to glassware; Chidambaram has imposed a 16 per cent Excise duty on glassware, bringing it on par with ceramicware and plasticware.

Soaps & Biscuits: Not all types, but those manufactured without the use of power. The excise exemption to them has been withdrawn. This is going to hurt the cottage industry, but will be welcomed by the bigger, organised players.

Spectacles: As if your optician needed a reason to fleece you. Spectacles, frames and goggles will now attract an 8 per cent excise duty as against a complete exemption in 2005-06. For once, it won't just be the comrades who see red.

All Unbranded items: This should level the playing field for the branded manufacturers. Unbranded items like packet foods and mineral water will now attract 8.0 per cent Excise duty. But one wonders how the government will ensure compliance in this sector.

Travel: Planning on a cruise vacation? It just got a little costlier, courtesy the service tax that cruise operators will now have to pay. Ditto with business class and first class air tickets. But don't expect this class of travellers to lose sleep over a few thousand rupees.

IPOs: The whole gamut of service providers to an IPO including the registrar, share transfer agents, and bankers to the issue, have been snared in the services tax net.

Share Transactions: The stock market is booming and the Finance Minister wants his pound of flesh. Ergo, the securities transaction tax (STT) has been increased by 25 per cent across the board. How did the Sensex react? It closed 88 points up at 10,370.

ATM Management: It is just the companies that offer ATM management services that will need to pay service tax. While the cost of service for banks will go up, they are unlikely to pass it on to end customers. ■



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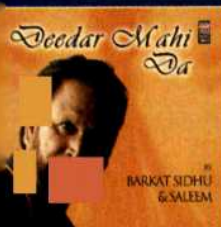


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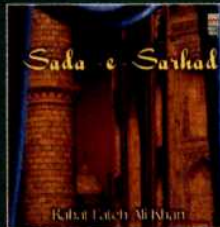
Jaan - e - Ghazal
1. Jagjit Singh – Har Ghadi
2. Abida Parveen – Yaar Ko Hamne Ja Ba Ja Dekha
3. Mehdi Hassan – Ranjish Hi Sahi
4. Farida Khanum – Aaj Jane Ki Zid Na Karo
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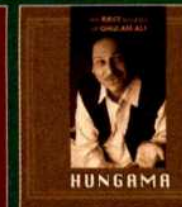
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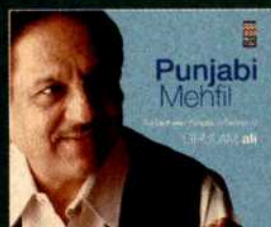
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Budget At A Glance

The Finance Minister's Budget speech was 24 pages long. But we've crunched most of what he said in two-and-a-half.

THE BIG PICTURE

	2004-05		2005-06		2006-07
	(BE)	(RE)	(BE)	(RE)	(BE)
Revenue Receipts	3,09,322	3,00,904	3,51,200	3,48,474	4,03,465
Capital Receipts	1,68,507	2,04,887	1,63,144	1,60,231	1,60,526
Total Receipts	4,77,829	5,05,791	5,14,344	5,08,705	5,63,991
Non-Plan Expenditure	3,32,239	3,68,404	3,70,847	3,64,914	3,91,263
Plan Expenditure	14,45,590	1,37,387	1,43,497	1,43,791	1,72,728
Total Expenditure (Plan + Non-plan)	4,77,829	5,05,791	5,14,344	5,08,705	5,63,991
Revenue Deficit	76,171 (2.5)	85,165 (2.7)	95,392 (2.7)	91,821 (2.6)	84,727 (2.1)
Fiscal Deficit	1,37,407 (4.4)	1,39,231 (4.5)	1,51,144 (4.3)	1,46,175 (4.1)	1,48,686 (3.8)

Figures are in Rs crore, figures in brackets are in per cent

BE: Budget estimates, RE: Revised estimates

Source: Budget documents

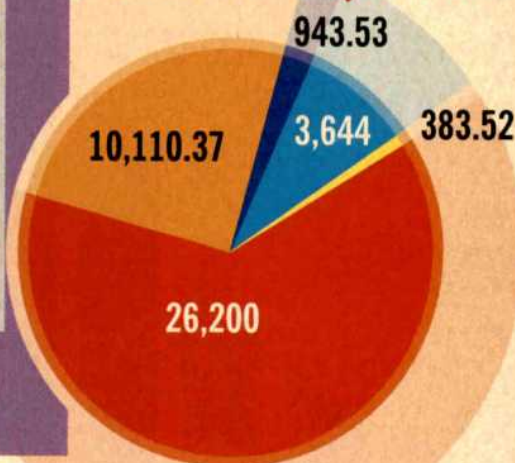
REVENUE RECEIPTS

	2004-05		2005-06		2006-07
	(BE)	(RE)	(BE)	(RE)	(BE)
Gross Tax Revenues	31,733	3,06,021	3,70,025	3,70,141	4,42,153
Excise Duty	1,09,199	1,00,720	1,21,533	1,12,000	1,19,000
Customs Duty	54,250	56,250	53,182	64,215	77,066
Corporation Tax	88,436	83,000	1,10,573	1,03,573	1,33,010
Income Tax	50,929	50,929	66,239	66,239	77,409
Service Tax	14,150	14,150	17,500	23,000	77,409
Taxes of Union Territories	624	707	733	849	903

Figures are in Rs crore, figures in brackets are in per cent
BE: Budget estimates RE: Revised estimates

THE SUBSIDY BILL

2005-06 (BE): **46,097.90**



Food Subsidy
Imported (urea) fertiliser
Petroleum subsidy
Indigenous (urea) fertiliser
Interest subsidies
Figures are in Rs crore

NON-TAX REVENUES

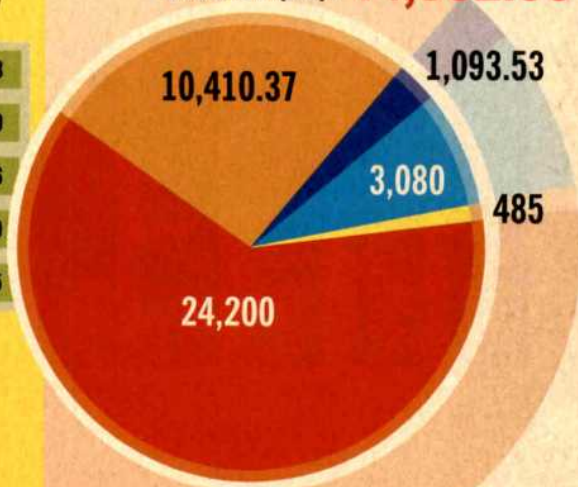
	2004-05		2005-06		2006-07
	(BE)	(RE)	(BE)	(RE)	(BE)
Interest receipts	36,950	31,538	25,500	21,245	19,263
Dividend and Profits	18,875	20,799	23,500	25,481	27,500
External Grants	3,598	3,064	3,218	3,019	2,616
Total Non-tax Revenues	75,416	75,100	77,734	74,335	76,260
Total Revenue Receipts	3,09,322	3,00,904	3,51,200	3,48,474	4,03,465

Figures are in Rs crore

BE: Budget estimate

RE: Revised estimate

2006-07 (BE): **44,532.90**



FOREIGN EXCHANGE RESERVES

	GOLD	RTP	SDRs	Foreign Currency Assets	Total
2000-01	12,711	N.A.	11	1,84,482	1,97,204
2001-02	14,868	N.A.	50	2,49,118	2,64,036
2002-03	16,785	3,190	19	3,41,476	3,61,470
2003-04	18,216	5,688	10	4,66,215	4,90,129
2004-05	19,686	6,289	20	5,93,121	6,19,116
2005-06*	22,626	6,017	21	6,27,455	6,56,119

Figures are in Rs crore
RTP: Reserve Tranche Position

*Till November-end
SDRs: Special Drawing Rights
Source: Economic Survey 2005-06

SOCIAL SERVICES

Education

Health and Family Welfare 986.33 1,293.53

Labour Welfare 983.47 1,176.55

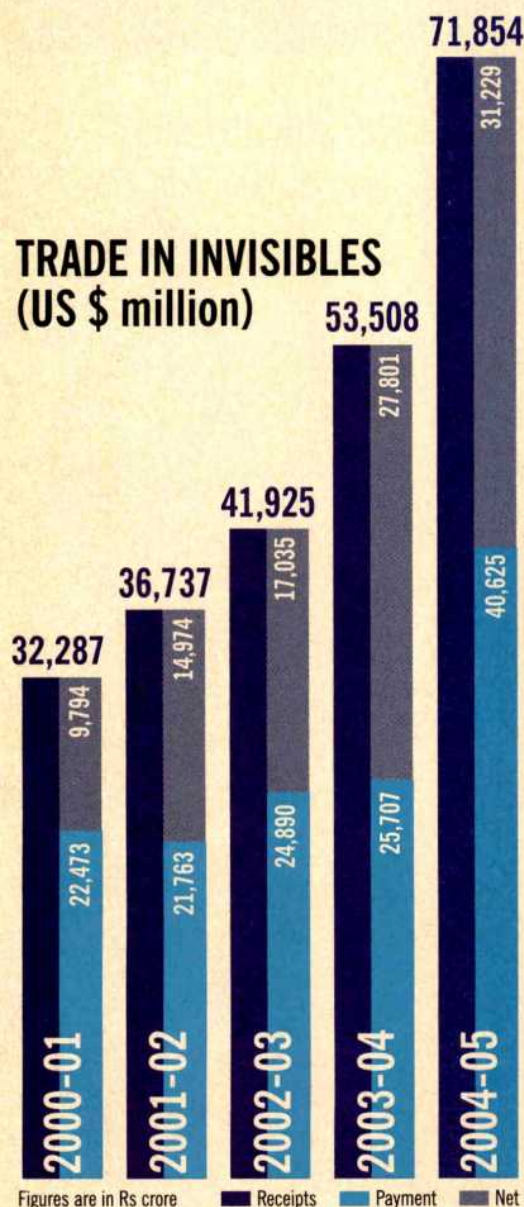
Social Security and Welfare 580.31 548.88

NON-PLAN EXPENDITURE

	2004-05 (BE)	(RE)	2005-06 (BE)	(RE)	2006-07 (BE)
Interest payments	1,29,500	1,25,905	1,33,945	1,30,031.86	1,39,822.6
Defence	77,000	77,000	83,000	81,700	89,000
Subsidies	43,516	46,514	47,432	46,874.12	46,213.52
Pensions	15,928	18,338	19,542	20,232.40	21,312.50
Economic Services	11,763	14,674	13,413	12,667.33	11,779.21
Police	9,940	10,542	12,237	12,592.52	13,681.60
Total Non-Plan Expenditure	2,93,650	2,96,396	3,30,530	3,64,914	

Figures are in Rs crore

TRADE IN INVISIBLES (US \$ million)



Figures are in Rs crore

■ Receipts

■ Payment

■ Net

THE TAX PROPOSALS

Peak custom duty on non-agricultural products reduced from 15 per cent to 12.5 per cent.

Duties on alloy steel and organic chemicals brought down from 10 per cent to 7.5 per cent.

No change in corporate tax—peak rate to remain at 30 per cent. No new taxes imposed.

No change in personal income tax

Several new services brought under the tax net; service tax rate increased from 10 per cent to 12 per cent.

Promise to move towards a national Goods and Services Tax by 2010; revenues will be shared between the Centre and states.

FII investment limit in government securities raised from \$1.75 billion to \$2 billion

Excise duty on small cars and aerated drinks brought down from 24 per cent to 16 per cent.

180 items so far on the small-scale sector list dereserved

Anonymous or pseudonymous donations to charitable institution to be taxed

Redefined the Fringe Benefit Tax by reducing the tax on expenses incurred by company on tour and travel from 20 per cent to 5 per cent.

2,992.93

3,317.98

Figures are in Rs crore

■ 2005-06 (BE)

■ 2006-07 (BE)

THE GROWTH FIGURES

GDP growth: **8.1 per cent**Agriculture: **2.3 per cent**Manufacturing: **9.4 per cent**Services: **9.5 per cent**Power: **4.7 per cent**

Source: Economic Survey, 2006

FOR THE COMMON MAN

Total allocation for UPA's eight flagship social sector programmes—Sarva Siksha Abhiyan, Mid-day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Total Sanitation campaign, National Rural Health Mission, Integrated Child Development Programme, National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Urban Renewal Mission **raised 43.2 per cent from Rs 34,927 crore to Rs 50,015 crore.**

Allocation for health and family welfare **increased 31.5 per cent to Rs 24,115 crore**

The government plans to employ **150,000 additional teachers** and build **500,00 additional classrooms** under the Sarva Siksha Abhiyan.

FM has promised to transfer **Rs 8,746 crore** to the Prarambhik Siksha Kosh from the revenues raised through the education cess.

Banks have been asked to increase **rural credit to Rs 1,75,000 crore** in 2006-07 from Rs 1,25,000 crore in 2004-05 and add another **50 lakh farmers** to their portfolio. Again, since tenant farmers are not adequately served, banks have to open a separate window for self-help groups or joint liability groups of tenant farmers so that they get a portion of the credit.

Farmers will receive **short-term credit at 7 per cent**, subject to an **upper limit of Rs 3,00,000.**

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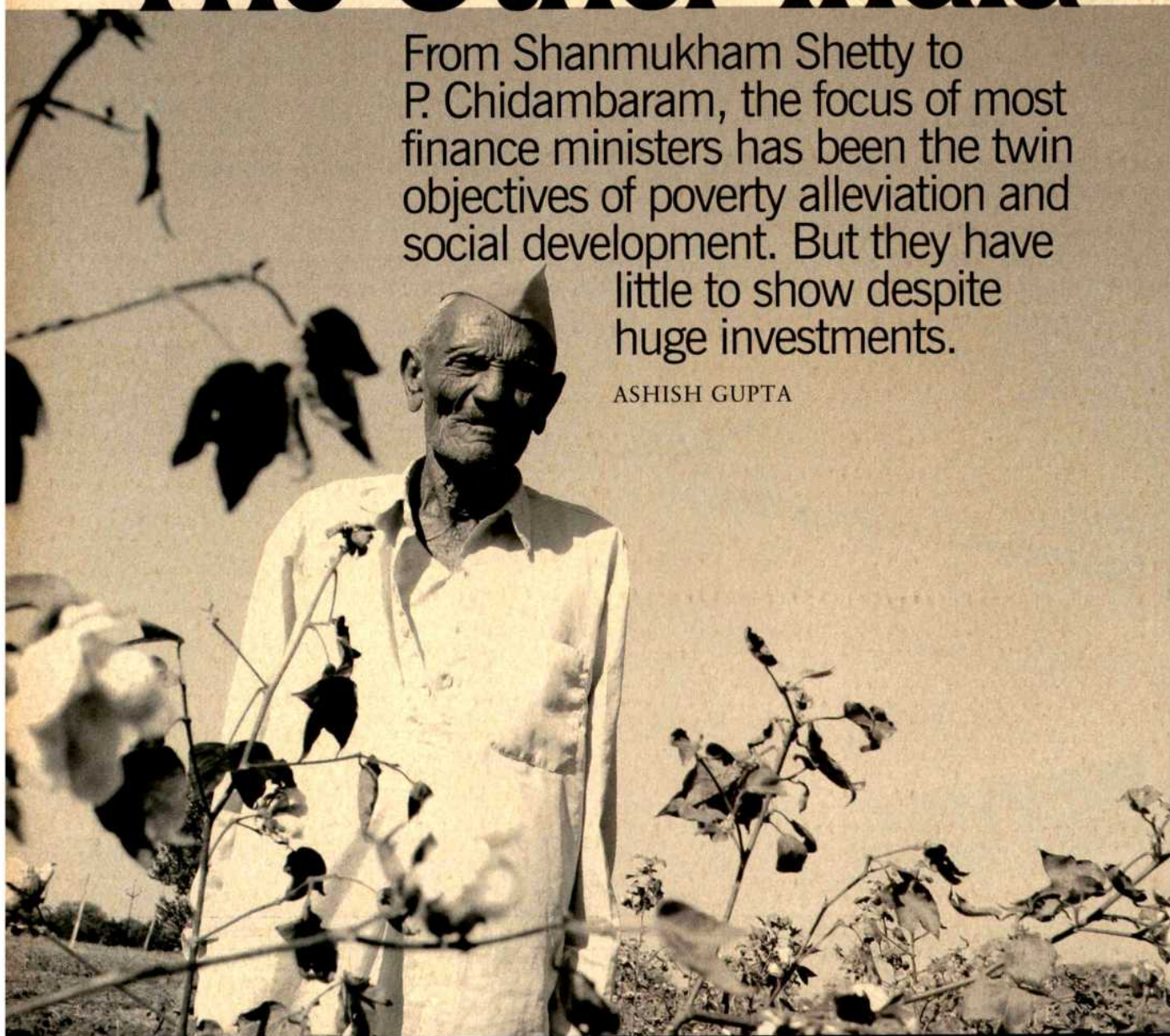
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2006
BUDGET

A Budget For The Other India

From Shanmukham Shetty to P. Chidambaram, the focus of most finance ministers has been the twin objectives of poverty alleviation and social development. But they have little to show despite huge investments.

ASHISH GUPTA



A bitter harvest: Despite sops and subsidies Indian agriculture has suffered

NEHA NATH

THE FIRST TRIP THAT PRIME MINISTER Manmohan Singh made soon after assuming office in May 2004, was to a remote village in the southern state of Andhra Pradesh to launch the National Food for Work Programme. Plagued by mounting debts, regular droughts and hunger, a number of farmers in the village had resorted to taking their lives. The significance of the site of Singh's announcement was also meant to symbolise the strength of his Congress-led United Progressive Alliance government's commitment to eradicate hunger and poverty, encapsulated in the Congress' election promise of "liberating the country from poverty, hunger and unemployment."

Then, such announcements are hardly rare. Throughout history, Indian governments irrespective of their political affiliations (and ideological hues) have claimed that there is nothing that gives them as much pleasure as working towards social development and poverty-eradication. For instance, P. Chidambaram, then the Finance Minister in the United Front Government stated in his Budget-1997 speech: "Our fight against poverty is not a game of populism. It is a battle at the grassroots level. It is a battle in which, I believe, all of us ought to be on the side of the poor." Or consider Yashwant Sinha (he was the Finance Minister in the BJP-led National Democratic Alliance government that governed India between 1998 and 2004) who, in his Budget-1998 speech said: "In preparing this Budget, I have been guided by the famous talisman of Gandhiji. I have recalled the face of the poorest and the weakest man I have seen and made sure that the Budget is of use to him."

In keeping with that tradition, Chidambaram's

THE FIVE MOST IMPORTANT REFORMS FOR THE OTHER INDIA

- **Land Reforms:** The rural poor have literally no access to land and insignificant land rights
- **Market Reforms:** The APMC needs to be amended in spirit and the amendments implemented
- **Financial Reforms:** Poor farmers have almost no access to organised sector funding
- **Agricultural Reforms:** Regulated contract farming can improve India's competitiveness
- **Subsidy Reforms:** A regulated move to a user-charge regime will help

BY M.S. SWAMINATHAN

2006-07: YEAR OF AGRICULTURAL RENEWAL

"A FAMINE OF JOBS IN THE RURAL NON-FARM AND OFF-FARM SECTORS IS LEADING TO A FAMINE OF FOOD"



THE LAST 10 YEARS HAVE WITNESSED A FATIGUE IN THE green revolution with the growth rate in foodgrain production falling below population growth. At the same time, consumption is not going up due to inadequate purchasing power. A famine of jobs/ livelihoods in the rural non-farm and off-farm sectors is leading to a famine of food at the household level. However, Prime Minister Manmohan Singh has rightly emphasised the need to double annual foodgrain production from the present 210 million tonnes to 420 million tonnes within the next 10 years, by 2015.

That will obviously mean achieving much higher productivity from units of arable land and irrigation water since land is a scarce commodity in this country. Factor productivity will have to be doubled, if the cost of production is to be reasonable and the prices of our farm products are to be globally competitive. So what needs to be done?

First, there is a need to enhance small farm productivity and increasing small farm income through crop-livestock integrated production systems and multiple livelihood opportunities through agro-processing and biomass utilisation. These are essential both for meeting food production targets and for reducing hunger, poverty and rural unemployment.

There is also a need to provide greater institutional support to small farmers in terms of research, extension, credit and input supply agencies as well as post-harvest infrastructure to reduce spoilage losses.

So, during this year (2006-07), which should be designated as the Year of Agricultural Renewal, an integrated package of measures should be introduced. The programmes should cover all our major agro-ecological regions. The present agricultural crisis can then be converted into an opportunity. If we do not attend to the problems of small farm and landless agricultural labour families, the Indian Enigma of the co-existence of enormous technological capability and entrepreneurship on the one hand, and extensive under-nutrition, poverty and deprivation, on the other, will not only persist, but will lead to social disruption. Without peace and security, enduring economic progress will not be possible.

(The author is the President, National Academy of Agricultural Sciences & Chairman, National Commission on Farmers. The text is an excerpt from a lecture that he delivered in Udaipur recently.)

WHAT'S THERE FOR THE OTHER INDIA IN BUDGET 2006

- Total allocation to the UPA's eight flagship programmes, most focussed on the rural areas, has been increased from Rs 34,927 crore to Rs 50,015 crore, a raise of 43.2 per cent
- The total allocation to health and family welfare has been increased by 31.5 per cent to Rs 24,115 crore. Much of these programmes will be targeted at the urban poor and rural and agricultural areas
- The government also has plans to add 1,50,000 additional teachers and 5,00,00 additional classrooms under the Sarva Siksha Abhiyan programme, which is focused on improving the quality of education in backward areas
- Banks have been asked to increase the level of (agricultural) credit to Rs 1,75,000 crore in 2006-07 and also add another 50 lakh farmers to their (asset) portfolio. Again, since tenant farmers are not adequately served, banks have been asked to open a separate window for self-help groups or joint-liability groups of tenant farmers so that a portion of the credit is extended to them
- The Budget promises short-term credit for farmers at a rate of interest of 7 per cent with an upper limit of Rs 300,000 on the principal
- The Budget has not only hiked the corpus of the Rural Infrastructure Development Fund to Rs 10,000 crore but also sanctioned, for the first time ever, Rs 346 crore, for the development of the north-eastern region
- With a view to bringing more cultivator households into the economic mainstream, the Finance Minister has appointed a Committee on Financial Inclusion, which will suggest a plan for designing and delivering credit to every household that seeks credit from lending institutions
- Under the Rajiv Gandhi Grameen Vidyutikaran Yojana, 10,000 villages will be electrified by the end of the current year (2005-06); in 2006-07, 40,000 more villages will be electrified

Budget-2006 speech had its bit (and byte) on poverty: "The assault on poverty and unemployment continues. I believe that the growth is the best antidote to poverty." There is reason, however, to believe that Chidambaram means what he says: his intentions have been backed by numbers (and money). For instance, the allocation of UPA government's eight flagship programmes, most of which target the urban poor and rural underprivileged, has been hiked by a whopping 43.2 per cent from Rs 34,927 crore in 2005-06 to Rs 50,015 crore for 2006-07. That for Bharat Nirman, the government's initiative to provide basic amenities such as power and water to rural India has been increased by 54 per cent from Rs 12,160 crore in 2005-06 to Rs 18,696 crore in 2006-07. Allocations for other programmes targeting the rural and agricultural sectors have been increased too. And not content with all this, Chidambaram's Budget 2006 promises farmers short-term credit at an interest rate of 7 per cent.

The Twin Approach

In many ways, Chidambaram's and the UPA's efforts to reach out to the poor and to the rural underprivileged can be clubbed under two broad heads.



The same old story: Farmer suicides are a way of life in Andhra Pradesh's Medak district

There are those interventions that are growth-oriented, that focus on growing the economy as a whole, reasoning that the benefits of this growth should, sooner than later, reach the people at the bottom of the pyramid, to borrow a phrase from management guru C.K. Prahalad. And there are those that are based on government spending, driven by the sound logic that the fruits of growth will take time to reach the poorest and that it would be unfair to deprive them of education, healthcare, and employment opportunities in the meantime.

In the early 1990s, when India (under the guidance of its then Finance Minister Manmohan Singh) decided to move towards becoming a free-market economy, everyone involved in the process knew that the poor would suffer from the economic policies of the structural adjustment programme. The benefits would accrue over the years, but there was an immediate need to provide the poor some relief. With that objective Singh introduced an Employment Assurance Scheme with exactly the same aim as the National Rural

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Q&A S SIVAKUMAR/CHIEF EXECUTIVE/ITC-IBD

"THIS WILL WEAN FARMERS AWAY FROM MONEY LENDERS"

B.K. RAMESH



Agriculture has been a key initiative for the United Progressive Alliance government, and this is the sector where tobacco major ITC has discovered the virtues of diversification. S. Sivakumar, chief executive of ITC's international business talks to **BT's** Shalini S. Dagar about Budget 2006. Excerpts:

What has this Budget done for the agricultural sector?

By far the most important initiatives have been the measures to boost agri-credit. Other notable initiatives include the overall emphasis on irrigation. Efforts at renewing water bodies also have good upside potential.

What kind of an impact will initiatives on boosting agro-credit have?

They will have far-reaching implications for the agriculture sector as the finance minister has taken steps not just to increase the volume of credit, but to lower the rates as well. The third aspect of covering more farmers has also been addressed. This kind of a concerted effort will wean away the farmers from the money-lenders.

Will this Budget encourage private participation in rural development?

Terminal markets is an area where private participation has now been formalised and where the government has committed risk capital. The Agriculture ministry has been speaking of it for quite sometime. Apart from this there is nothing else. The Budget could have gone beyond terminal markets for a handful of cities.

Employment Guarantee Scheme: 100 days of work per rural family, initially targetted at backward districts and later to be extended to the whole country. Despite this, the Congress lost the 1996 general elections.

With the coming to power of the BJP there was a slight change in the government's strategy. Poverty alleviation policies were now clubbed with larger human development policies that dealt with everything



Nothing to reap: Shanta with her son Kishore in their cotton fields in Maharashtra's Wardha Village. Her husband committed suicide when he was unable to repay a local money lender

from healthcare and education to roads and the empowerment of women. In his Budget-1999 speech, Sinha said: "The essence of human development should empower vulnerable people in society to take advantage of the process of development. Empowerment in my view, entails access to five basic requirements, namely food, healthcare education, employment and shelter."

The major bottleneck in poverty alleviation, according to the NDA government, was the lack of credit to cultivators and marginal farmers. It sought to resolve this problem by focusing on micro-finance through NABARD and other cooperative societies. And realising that previous governments had wasted precious resources by duplicating programmes, it sought to unify various programmes under two broad categories, self employment schemes and the wage employment schemes.

The Negligible Impact

The emphasis of successive governments on what is called the social sector does not mean that the amount the government spends on this has increased. It went up from 20.3 per cent of the GDP in 1990-91 to 22.1 per cent in 2000-01 and again, down to 19.3 per cent in 2004-05.

Yet, in the absence of a proper monitoring and a delivery mechanism most economists believe that any expenditure on the sector is akin to throwing good money after bad. "Most social sector schemes are like leaking buckets because there is virtually no monitoring of the funds at the lower level. Moreover, research on the Maharashtra's Employment Guarantee Scheme has shown that participation rates are low, and poor people have many things to do and are not available for work for most of the time," says Surjit Bhalla, Managing Director, Oxus Investments. Again, the connection between rural employment schemes and poverty also remains rather weak. Between 1987-88 and 1993-94 work man-days soared from 675 million to 1,073 million, but the rural poverty ratio declined very modestly from 39.1 per cent to 37.1 per cent according to NSSO data.

Then, several states do not spend money meant for the social sector and return unspent money (Plan funds) every year. So, what needs to be done? Sinha believes that droughts have been a major reason for agriculture not realising the full potential. He advocates drought proofing through a master irrigation plan linking major and minor schemes so that agriculture does not depend on the vagaries of nature. However, the real issue could well be the government's reluctance to push through much-needed reforms that will increase the competitiveness of the Indian agricultural sector. As India Inc's example shows, sops and subsidies may not be the way to go about it. ■

Q&A/RANA KAPOOR/CEO/YES BANK

"THE MEASURES ARE IN SMALL DOSES"



SOUNIK KAR

Yes Bank's CEO, Rana Kapoor speaks to BT's Shalini S. Dagar about the Budget's impact on the rural and agri-economy.

What does this Budget do for the agrarian economy?

Subvention to NABARD, a refinance window for food-processing units, food technology parks, efforts to improve the ice-cream sector are all measures that will provide fair impetus to the agrarian sector. The single largest impact will be the inclusion of lending to food processing units under the priority sector.

The Finance Minister has set a target of around Rs 175,000 crore for farm credit for 2006-07. This looks like directed lending, which comes with its own problems such as non-performing loans...

It may seem like directed lending, but the minister has addressed small issues on many fronts. The food processing sector is one of the biggest pieces of the pie, which is large enough for banks to scale up their lending.

Does something about the Budget disappoint you?

The measures have been taken in small doses. And agri-infrastructure such as cold chains could have been treated on par with other infrastructure projects. These may be small projects of 150-200 crores but are fairly pivotal for the rural economy.

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YEAR: **1991-92**

FINANCE MINISTER: **Manmohan Singh**

MAIN POLICY INITIATIVES:

- Opened up 34 industries to Foreign Direct Investment
- Set up the National Renewal Fund
- Announced a policy of selling 20 per cent shares in select state undertakings

▲ GROWTH RATE: **0.9 per cent**

YEAR: **1992-93**

FINANCE MINISTER: **Manmohan Singh**

MAIN POLICY INITIATIVES:

- Brought down the fiscal deficit from 5.9 per cent to 5.7 per cent
- Started the partial restructuring of the fertiliser subsidy
- Allowed reputed foreign investors to invest in the Indian capital markets

▲ GROWTH RATE: **5.3 per cent**

YEAR: **1993-94**

FINANCE MINISTER: **Manmohan Singh**

MAIN POLICY INITIATIVES:

- Announced the convertibility of the rupee on the current account
- Stopped unlimited monetisation of the fiscal deficit by borrowing from the RBI

▲ GROWTH RATE: **6.2 per cent**

YEAR: **1994-95**

FINANCE MINISTER: **Manmohan Singh**

MAIN POLICY INITIATIVES:

- Introduced the concept of a service tax
- Brought down custom duties on steel and capital goods
- Focussed on poverty reduction and unemployment

▲ GROWTH RATE: **7.8 per cent**

YEAR: **1995-96**

FINANCE MINISTER:
Manmohan Singh

MAIN POLICY INITIATIVES:

- Established a Rural Infrastructure Development Fund
- Set up a regulatory authority for the insurance sector
- Enlarged the scope of National Equity Fund Scheme to help the SSI sector
- Introduced a legislation to set up Central Depositories

▲ GROWTH RATE:
7.2 per cent



Budget Through The Years



SHOME BASU

YEAR: **1996-97**

FINANCE MINISTER: **P. Chidambaram**

MAIN POLICY INITIATIVES:

- Enhanced outlays for defence, education, women and child development, health, labour and surface transport
- Initiated tax system reform
- Began promotion of socially just growth leading to greater self-reliance
- Increased agricultural and rural credit

▲ GROWTH RATE: **7.8 per cent**

YEAR: **1997-98**

FINANCE MINISTER: **P. Chidambaram**

MAIN POLICY INITIATIVES:

- Focussed on macroeconomic stability and investment in human development
- Thrust on highway development
- Began targeting poverty alleviation programmes
- Emphasised local entrepreneurship

▲ GROWTH RATE: **4.8 per cent**

THE UNION BUDGET IS NEVER JUST AN ANNUAL PRESENTATION ON THE GOVERNMENT'S OWN finances. Invariably, it's a statement of the nation's changing *zeitgeist*, showcasing the popular concerns and the political imperatives. Seen from that perspective, the previous 15 budgets tell the story of an emerging India. Therefore, if Finance Minister Manmohan Singh announced the dramatic opening up of 34 industries to foreign investment way back in 1991-92, his successors to the job (Yashwant Sinha, Jaswant Singh, and P. Chidambaram) talked of building infrastructure and the rural economy. Finance Minister P. Chidambaram's latest budget, of course, has refrained from announcing any major policy changes. An indication that the government realises what its job in a booming economy should be, which is to stay out of business.

YEAR: **2000-01**

FINANCE MINISTER: **Yashwant Sinha**

MAIN POLICY INITIATIVES:

- Strengthened the foundations of rural economy
- Emphasised modernisation of traditional industries
- Focused on the potential of knowledge-based industries
- Established a credible framework for fiscal discipline

▲ GROWTH RATE: **4.4 per cent**

YEAR: **2001-02**

FINANCE MINISTER: **Yashwant Sinha**

MAIN POLICY INITIATIVES:

- Accelerated agricultural reforms
- Intensified infrastructure development
- Focused on human development through education
- Widened the tax base and toned up the tax administration

▲ GROWTH RATE: **5.8 per cent**

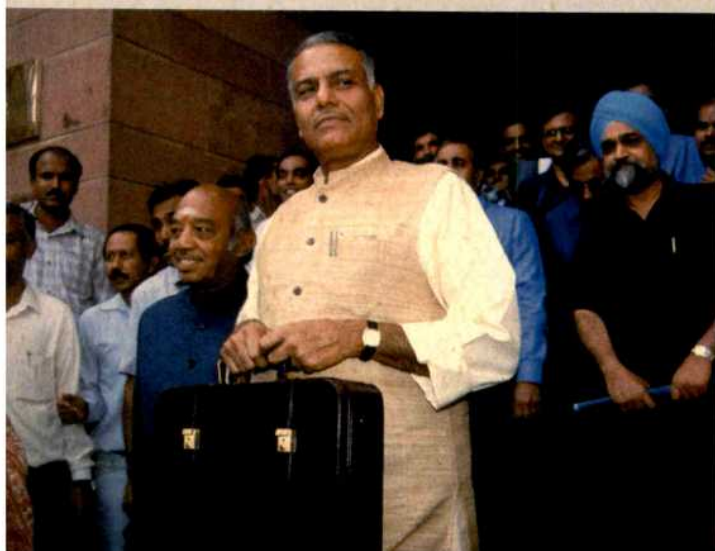
YEAR: **2002-03**

FINANCE MINISTER: **Yashwant Sinha**

MAIN POLICY INITIATIVES:

- Continued emphasis on agricultural reforms
- Provided social security to the poor
- Deepened structural reform, regenerated industrial growth
- Enhanced public and private investment in infrastructure

▲ GROWTH RATE: **4 per cent**



YEAR: **2003-04**

FINANCE MINISTER: **Jaswant Singh**

MAIN POLICY INITIATIVES:

- Emphasised infrastructure development
- Focused on manufacturing sector efficiency
- Emphasised fiscal consolidation
- Stressed poverty eradication

▲ GROWTH RATE: **8.5 per cent**

YEAR: **2004-2005**

FINANCE MINISTER: **P. Chidambaram**

MAIN POLICY INITIATIVES:

- Announced an increase in the ceiling on FDI in telecom and insurance
- Announced a Food For Work programme
- Created an Investment Commission
- Announced deadline for implementation of VAT

▲ GROWTH RATE: **6.1 per cent projected**

YEAR: **2005-2006**

FINANCE MINISTER: **P. Chidambaram**

MAIN POLICY INITIATIVES:

- Intensified National Highway Development Project
- Greater emphasis to rural electrification
- Put thrust on fiscal consolidation
- Gave greater emphasis on developing agricultural infrastructure

▲ GROWTH RATE: **8.1 per cent**

Look Back In Anger?

Not really.
The government's scorecard in implementing its Budget 2005-06 promises is really a mixed bag.

ASHISH GUPTA

IN A DOCUMENT AS PEPPERED with numbers as Union Budget 2006 is, chances are, not too many people would have bothered to carry out the little mathematical exercise required to arrive at a proportion, a relevant one and central to this composition, of 11.73 per cent. That's the proportion of the space this year's Budget document (223 pages in all) dedicated to the Action Taken Report (ATR), a sort of did-this, missed-that review of the previous year's budget announcements. The first ATR was presented by Yashwant Sinha, the Finance Minister of the BJP-led National Democratic Alliance government in 2001. His successors, the punctilious Jaswant Singh and Harvard-returned lawyer-



FM Chidambaram:
I'm looking out for you

BUDGET 2005: MAJOR POLICY DECISIONS AND THEIR STATUS IN MARCH 2006

- Launched the National Rural Employment Guarantee Scheme (NREGS) to provide 100 days work to at least one member of a family below the poverty line

STATUS: Started on February 2 this year, the scheme was launched in 200 districts of the country by merging other poverty alleviation programmes such as the National Food for Work Programme. But its impact on the national exchequer will only be felt next year



- Launched the Bharat Nirman Programme to build infrastructure in rural India by focussing on irrigation, roads, water supply, housing, electrification and telecom connectivity

STATUS: Implemented. Action plans for the four-year project have been drawn up for each of the six components of the Bharat Nirman Programme and the necessary funding—Rs 1,74,000 crore—is still being tied up

- Announced a scheme to set up agricultural markets, marketing infrastructure and support services to induce greater investments from the private and cooperative sector in agriculture

STATUS: Implemented. But whether it will bring more investment from the private and the cooperative sector and facilitate the creation of a national market for agriculture products is to be seen



- Set up a Special Purpose Vehicle (SPV) to facilitate fund raising for infrastructure projects such as roads, ports and airports

STATUS: Implemented. The SPV was set up only in January this year, but has yet to receive any proposal for funding of infrastructure projects. The SPV is expected to raise Rs 10,000 crore from the market

- Facilitate foreign investment policy in mining, trade and pensions, the last by introducing a bill to replace the Pension Fund Regulatory Development Authority (PFRDA) ordinance

STATUS: Not implemented. The Left has virtually blocked the passage of the PFRDA Bill despite the fact that the Standing Committee has given its report on July 27, 2005



- Create a National Urban Renewal Mission to cope with the challenges of urbanisation and cover seven mega cities with a population of over 1 million

STATUS: Implemented. The Finance Ministry has already budgeted an outlay of Rs 5,500 crore for 2005-06 for the renewal mission, including a grant component of Rs 1,850 crore



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12. DANCING IN THE DARK - Bruce Springsteen
13. PART-TIME LOVER - Stevie Wonder
14. UN-BREAK MY HEART - Toni Braxton
15. THE RIVER OF DREAMS - Billy Joel

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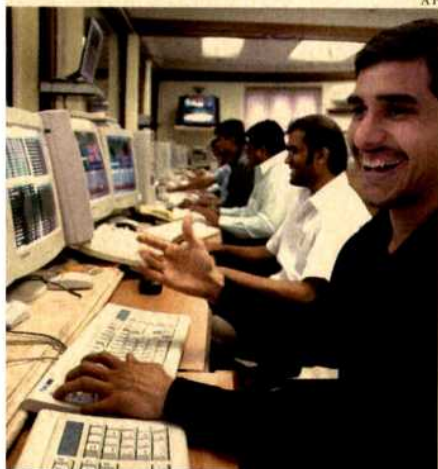
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turned politician P. Chidambaram, have carried the tradition forward.

The Finance Ministry's own report card, the mid-year review of the economy, presented in December 2005, showed that the government had fulfilled 29 of the 64 Budget announcements by the end of September 2005. More, it said, would be fulfilled by the end of March 2006 (a claim that has since been borne out by the launch of the National Rural Employment Guarantee Scheme, the National Urban Renewal Mission and the Bharat Nirman Scheme).

Still, the importance of an ATR cannot be discounted. At one level, it means that someone, somewhere is keeping a watch on promises made. At another, it is a measure of the government's commitment to its people. And at still another, it is a good indicator of the ability of a coalition government to do what needs to be done without surrendering to anti-reformist tendencies on the part of its partners. For instance, the ruling Congress-led



10,000 AND TICKING: The markets have been on fire in 2005-06, and if that's taken as an economic indicator, Chidambaram didn't do a bad job with his Budget 2005

BUDGET 2005: MAJOR TAX ANNOUNCEMENTS AND THEIR IMPACT

● Re-defined personal tax brackets and removed standard deduction

STATUS: Implemented. Has raised the basic exemption limit on income-tax for individuals from Rs 50,000 to Re 1 lakh per annum, Rs 1,25,000 for women and Rs 1,85,000 for senior citizens, but has done away with the concept of standard deduction

● Reduced the corporate tax rate from 35 per cent to 30 per cent

STATUS: Implemented. By bringing down the peak corporate tax rate by 5 per cent, the Finance Minister hoped to provide an impetus to corporates to go for greater capacity building as well as make their products more affordable. It is also in line with the peak personal tax rate

● Surcharge on corporate tax increased from 2.5 per cent to 10 per cent

STATUS: Implemented. The increase in surcharge from 2.5 to 10 per cent meant greater revenue collection for a government starved of funds to meet its social sector obligations under the National Common Minimum Programme

● Imposition of a 0.1 per cent Banking Cash Transaction Tax on all withdrawals of Rs 10,000 and above on a single day other than the savings account

STATUS: Implemented. The Finance Minister explained how this has helped track down parallel-economy transactions while presenting Budget 2006

● Imposition of a 33.66-per cent Fringe Benefit Tax (FBT) payable by the employers on the value of fringe benefits provided to employees

STATUS: Implemented. The most controversial of last year's tax proposals, it seeks to tax the employer for what has been described as disguised employee perquisites and includes any privilege, service, facility or amenity provided directly or indirectly to the employee

● A 10.2-per cent service tax levied on nine more items taking the total number to 81

STATUS: While the service tax rate was maintained, it was broad-based to include survey and map making, dredging, transport of goods through pipelines, membership of clubs, packaging, etc. A good move to increase tax collections



THE FINANCE MINISTER THROUGH 2005-06

“Should the Central government step in and fix interest rates? That will not be a wise thing. The correct thing is to bring down inflation, cost of funds and to maintain macro economic stability to ensure low interest rates.”

“In the first half of the current year, growth was 8.1 per cent, and all available projections for the current fiscal point to an eventual growth rate of between 7-7.5 per cent.”

“We have to remain committed to an aggressive agenda for economic reforms. The main objective of current phase of reforms is to secure high growth.”

“The challenge before the countries of Asia today is to create and maintain a regional and international environment that is conducive to high economic growth.”

“India is committed to achieving a high growth rate in order to alleviate poverty, increase employment and improve the quality of life of the people.”

“You (NRIs) send money in trust. I promise we will never betray that trust.”

“Managed migration will benefit both the host and the home country.”

“We have maintained reasonably stable price regime despite the severest challenges faced in last decade of high oil prices, natural calamities like tsunami, floods and earthquakes.”

“FDI will continue to be encouraged and actively sought, particularly in the areas of infrastructure, high technology and exports.”

“Sensex reflects the business confidence and strong fundamentals of the economy.”

“Unless the cost of inflation and the cost of administration of rural cooperative banks are reduced, banks will not be in a position to cut down the rate from 9 per cent.”

United Progressive Alliance's (UPA) commitment to reforms is not only undermined by the demands of the communist parties—on whose outside support it is critically dependent—but also by the influential left-of centre voices within the alliance and even within the Congress. Hence, there have been few big-bang reforms: no reduction in the government's workforce, no big-ticket privatisation, no changes in labour laws and no change in the ceilings on foreign investment in several sectors, including insurance where the government's efforts to increase it to 49 per cent from 26 per cent have come to nought.

There have been other reforms that have been scotched by the communists, among them, a plan to reduce the food subsidy bill from Rs 26,200 crore. However, the UPA has gone slow on even those reforms within its powers (read: those not opposed by the communist parties). For instance, Chidambaram promised to introduce a revised and simplified Income Tax Bill. That hasn't happened. Another of his major announcements—the creation of a special purpose vehicle called India Infrastructure Finance Company Ltd (IIFCL) and the concept of viability gap funding—made in the last Budget to provide much-needed funds for infrastructure development, still remains in the drawing board stage. IIFCL, which came into existence only in January this year, has not received neither any proposal for funding from any company; nor has the criteria for selection of projects been finalised.

Even on the developmental front, while the government has launched its rural employment guarantee scheme and Bharat Nirman, its rural infrastructure creation one, the real action will kick in only in 2006-07 when these will have to be funded (the first by Rs 1,50,000 crore and the second by

WHAT THE ACTION TAKEN REPORT SAYS

THE ACTION TAKEN REPORT (ATR) TABLED IN PARLIAMENT BY Finance Minister P. Chidambaram makes for pleasant reading (if one is given to reading such reports, that is). It lists the status of 64 proposals made in the 2005-06 Budget. These range from the Tsunami Reconstruction and Rehabilitation Programme to the National Rural Employment Guarantee Scheme and other social sector programmes, to agriculture, rural credit and others. Action has been completed in 44 of these programmes. The others are mostly ongoing schemes that need more time to complete.

The Bharat Nirman Programme, for example, aims to bring an additional one crore hectares under irrigation, connect all villages with populations of 1,000 with roads, construct 60 lakh additional houses, provide drinking water to the 74,000 habitations that are still uncovered and reach electricity to 125,000 villages that still don't have it. The ATR says action plans for all

these programmes are ready, the funding is being tied up and their progress monitored by the Prime Minister.

Similarly, in agriculture, the long-term vision is to diversify cropping patterns away from food crops to fruits, vegetables, flowers, etc. The ATR says the roadmap for diversification is being prepared by the Ministry of Agriculture. The area under rice cultivation has already been reduced by 2.6 million hectares; oilseeds and pulses are now being grown there. And the National Horticultural Mission is fully operational in all the states.

Other areas like rural credit still have some distance to go. An RBI circular on increasing credit flows to this segment was issued only on January 25 this year. So, this one should count under the action not taken category. That's not the point.

Conceptually, the ATR is still in its infancy in India. But it does provide useful insights into the working of the government and enables the common citizen to hold his rulers accountable.



THE TRADE BOOM: Exports are up in 2005-06, as are imports of capital goods. Economic activity, clearly, has increased



THE INFRASTRUCTURE HURDLE: 2005-06 has been a year of disasters (like Mumbai's floods) that once again highlight the need to upgrade infrastructure

Rs 1,74,000 crore). "The real fiscal challenge for the Finance Minister begins only in 2006-07 when he has to make provisions for these mega schemes," says Saumitra Chaudhuri, Chief Economist at credit rating agency ICRA.

There are other promises in Budget 2005 that remain unfulfilled—the government is yet to clear the funding for the tsunami rehabilitation programme (cost: Rs 10,000 crore), and the tsunami is over a year old now—but Chidambaram has proved equal to the fiscal challenges.

He has exceeded the Budget target of keeping fiscal deficit to 4.3 per cent (it is actually 4.1 per cent) of the GDP and the revenue deficit to 2.7 per cent (2.6 per cent) of the GDP, thanks mainly to the robust growth in the Indian economy—expected to grow at 8.1 per cent in 2005-06—and non-implementation of a few Budget promises and a tight control over the government expenditure. He has also exceeded the budget estimates of net tax revenue receipts, with the revised estimates of Rs 2,74,139 crore being some Rs 673 crore higher than the budget estimates. And that has been the FM's biggest success story for 2005-06. ■

■ LAST PAGE

Having Fun On The Job

HIS VESHTI (A SARONG-LIKE GARMENT, ONLY longer, that is preferred by South Indians) was spotless white. His smile was a toothpaste (or toothpaste ad) maker's dream. And his demeanour, one part Rahul 'The Wall' Dravid, one part Andrew 'Freddie' Flintoff (the first Test match between England and India began a day after the Budget), and altogether, that of a winner. Here's what India's Finance Minister did in the course of his 95-minute speech on February 28. He quoted Tiruvalluvar, the author of *Thirukkural*, a Tamil scripture dating back to 1 A.D. (something that has become a habit with him) and Swami Vivekananda. He proffered sound bites of the kind that Nehru and Churchill would have been proud of and which many of today's politicians would be hard-pressed to emulate (A sampling: "Growth will be our mount; equity will be our companion; and social justice will be our destination", and "I believe that growth is the best antidote to poverty"). He even managed to strike a balance in his references to management buzzwords: a mention of the favourite of the 1990s, efficiency-at-all-costs Business Process Re-engineering was nicely offset by another, this one a favourite of the 2000s, inclusion. There was a brief, all-too-brief flash of Chidambaram's famous distaste for criticism, when he said he hoped that his clarifications regarding the Fringe Benefit Tax (FBT)—introduced last year, this tax on perquisites became the talking point and the biggest irritant of Budget 2005 for corporate India—would finally end all debate on the subject, but for the most part of the 95 minutes, the man looked to be in the zone. And he seemed to be having fun; not fun as in weaving the names of recent Bollywood blockbusters cleverly into his Budget speech, but fun as in enjoying doing something that he knows he does well.

It is, after all, a good time to be India's Finance Minister. The economy is expected to grow by 8.1

per cent in 2005-06, and the manufacturing sector by 9.4 per cent. Even the agriculture sector, which grew by 1.1 per cent in 2004-05, looks set to do a better-in-comparison 2.3 per cent. Inflation is down to 4.1 per cent (as on February 11). India's foreign exchange reserves stand at an impressive \$140.4 billion or Rs 6,31,800 crore (as on February 10). Some \$9.4 billion (Rs 42,300 crore) has been invested in the Indian stock markets by foreign institutional investors between April 2005 and now (February 27). In the first nine months of 2005-06, India attracted around \$4 billion (Rs 18,000 crore) in foreign direct investment. India Inc, on a roll these past few years, didn't have any major expectations from Budget 2006 and it is always

easy to exceed expectations when nothing is expected of you. Better still, a booming corporate sector (and a slight tweaking in the tax regime) have resulted in a significant increase in tax revenues, a trend that will likely continue in 2006-07 too. Chidambaram has been able, therefore, to fund developmental schemes that are to the liking of the ruling United Progressive Alliance government's key allies, the communist parties, without resorting to deficit financing. He hopes to be able to reduce the fiscal deficit to 3.8 per cent (of GDP) in 2006-07, and that number should assuage the concerns of those economists worried about the Indian economy's structural soundness.

Chidambaram may have presided over all these, a clutch of happy coincidences, but he needs to be feted too. He hasn't done anything to erode either the confidence or the competitiveness of Indian companies. He has done enough to reassure foreign investors that the India story is actually more fact than fiction. And he has, as he has done right from the first Budget he presented as Finance Minister in the UPA government, leveraged growth towards the cause of inclusion. To paraphrase the very poem of Tiruvalluvar he quoted on February 28: The world is his, who does his job and has fun doing so. ■

R. SUKUMAR



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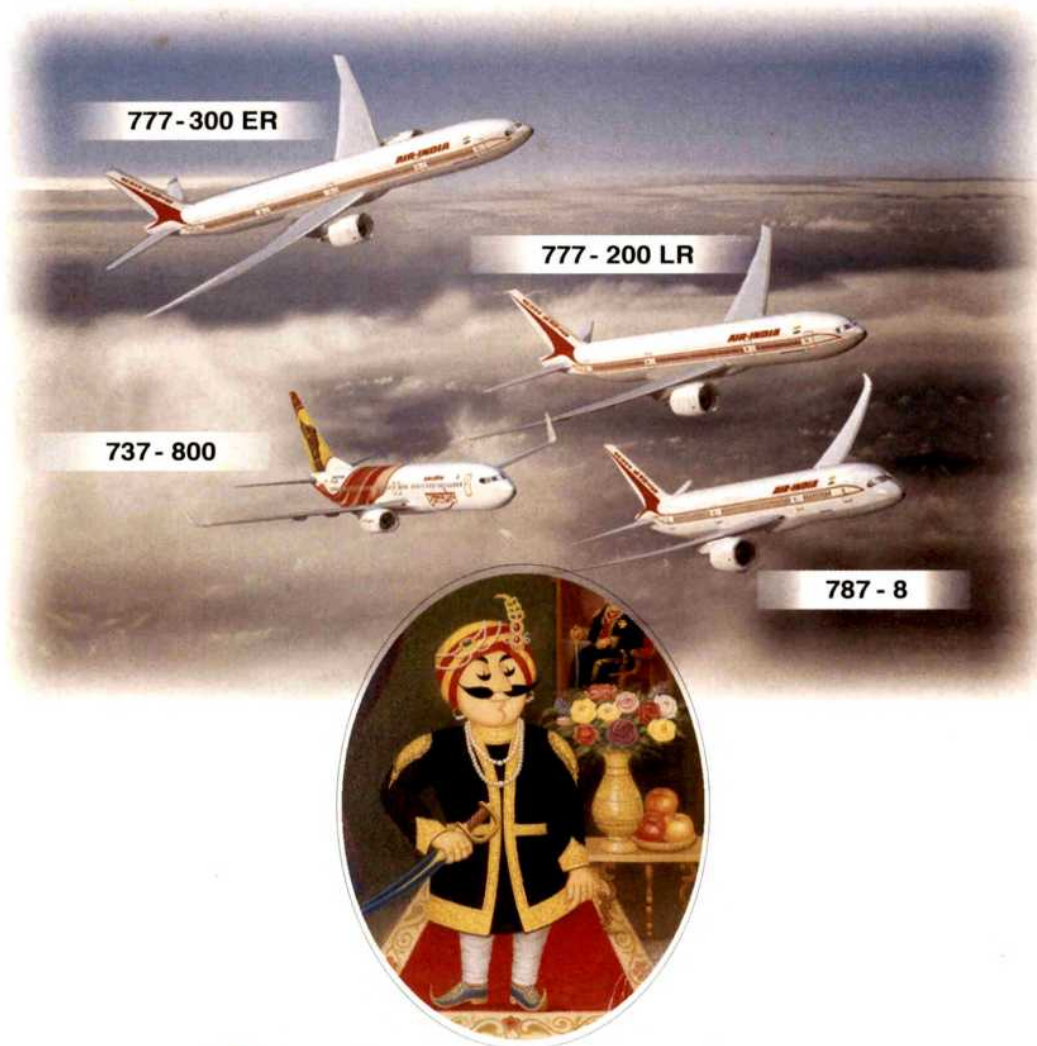
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Management Special, March 2006

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From The Editor

IT HAS BEEN OUR ENDEAVOUR TO ALWAYS KEEP ABREAST OF, and report on, the latest trends in business. This is something we do on a continuous basis. Thus, every issue of *Business Today* contains fascinating insights into the minds of the movers and shakers of India Inc. But sometimes, a trend or a practice may be too broad-based to capture in one story. That's when we come out with a Special Issue to give you, our readers, a 360-degree view of it.

Over the last decade, Performance Transformation has been such a trend. It has changed the way businesses around the world think, operate and expand; but it has never really received the focussed attention it deserves. It is now playing an increasingly important role in India's corporate world. Individual companies and, indeed, entire sectors are undergoing rapid transformation, some successfully and most others less so. We think the time is now ripe to turn the arc lights on to it.

The trigger for this, of course, is the fever pitch competition, globalisation and rising stakeholder expectations that now drive the corporate story. In today's business environment, incremental year-on-year improvements are not enough to remain competitive over time. Even as companies achieve one breakthrough in performance, they struggle to sustain the improvement over time and/or to replicate it in other areas. Many others dissipate their energies on an "initiative overload", resulting in missed opportunities.

Basically, we have looked at the issues involved through the examples of six companies across various sectors and analysed how each has managed the transformation issues that cropped up in the course of their businesses. Readers should note that at some stage of their lives, each of these companies—with the possible exception of ONGC—had competitors and rivals of similar or greater size. The macro environment in which they operated was also largely similar for their respective peer groups. Yet, each of these companies moved ahead of the pack and has today emerged as leader in its respective industry. How? Through a process called Performance Transformation. For easier dissemination of a very complex and still ongoing process, our team of editors and correspondents has broken up these discrete transformation journeys into three parts: the desired transformation story, the chapters in the transformation story and the key initiatives to deliver the transformation story.

McKinsey & Company, our collaborator in this effort, has done pioneering work in this regard. We gratefully acknowledge the various key inputs and reprint permissions that it has provided us for this edition.

Sanjoy Narayan
SANJOY NARAYAN



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“Look at his desk!”

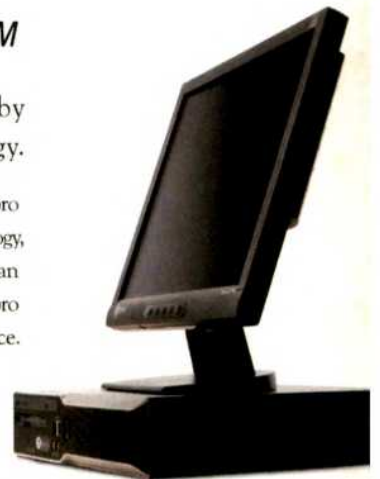


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Tsun-yan Hsieh



Tata's Steel's Muthuraman



Ranbaxy's Brian Tempest



ONGC's Subir Raha



Asian Paints' Ashwin Dani



McKinsey's Gautam Kumra



Infosys' Narayana Murthy



Kotak Mahindra's Uday Kotak



View From Boardroom



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AN OVERVIEW

Performance transformation can help India Inc achieve its ambitions. Here's a look at the issues involved.

ARNAB MITRA

FEVER PITCH COMPETITION, GLOBALISATION and rising stakeholder expectations mean company managements now have to run merely to maintain their existing positions in the market. But empirical evidence suggests that, this, and even incremental quarter-on-quarter or year-on-year improvements are not enough to remain competitive over extended periods. Companies have become horribly complex, so improvements and breakthroughs in one area are often "balanced out" by a drop in performance in others. They also struggle to sustain the improvements over time and, more often than not, are unable to replicate progress in one area in others. It has also been seen that many companies expend their energies on an "initiative overload", resulting in missed opportunities. This, obviously, is not the way to go about it.

Performance transformation is. But what is it? According to Gautam Kumra, Partner, McKinsey & Company, "performance transformation is a fundamental, substantial and sustainable shift in the level of performance in a company. This is usually accompanied by fundamental changes in the quality and capability of leadership and organisation processes so that the change is sustainable over time."

And how can individual companies successfully transform themselves? Says Nandan Nilekani, CEO, President and Managing Director of Infosys: "As the size, scale, complexity and footprint of businesses change, and as they become larger and more strategic for the customers and the countries they operate in, it becomes important for companies to anticipate change and differentiate themselves as they grow. The fundamental tenets of speed, imagination and excellence in execution will be the key to being successful." Adds Kumra: "To sustain a higher level of performance over time, a company has to make changes in its systems, processes and capabilities."

Thus, we see in every industry some companies that outperform others by a distance. They consistently register higher growth rates, earn more profits and attract and retain talent more easily than their peers. Globally, this list contains a handful of companies like General Electric, Wal-Mart, Toyota and Dell; in India, names like Tata Steel, Ranbaxy, Kotak Mahindra Bank, ONGC, Asian Paints and Infosys, among others, come readily to mind. The common thread running through all of them: they are all leaders of their respective industries—usually for long periods. But this was not always the case. At some



ILLUSTRATIONS BY RAMEN SARKAR

"Performance transformation is a fundamental, substantial and sustainable shift in the level of performance in a company"

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point of their existence, they would have faced competition from companies with similar antecedents and growth opportunities. But, they managed to move ahead of the pack by addressing the needs of the present—at every point of their existence—while preparing for the future in a fluid and challenging environment better than their competitors.

Unfortunately, such examples are few and far between. Both the global and Indian corporate landscape is full of instances of highly admired companies that fell by the wayside because they either failed to transform or because they lost control of their transformation efforts. A McKinsey report on the subject highlights the fact that “many companies not only slip but actually plummet down the corporate rankings, or disappear entirely. Sixty-one of the *Forbes* 100 companies of 1987 had fallen from their places by 2003”. In India, too, several highly admired and successful companies and business houses of a decade-and-a-half ago no longer feature in the list of the biggest corporate entities in 2005.

Says Tsun-yan Hsieh, Chairman, Asia, McKinsey & Company: “As the business climate becomes more demanding, even companies that perform much better than their peer group, find themselves aspiring and preparing to grow rapidly, usually in overseas markets. At the same time, they continue to revamp and reinvent themselves in order to retain their competitive edge in their home markets as these markets open up to both internal and external competition. This process of constant change and a company’s response to it determines how competitive and relevant it remains in the context of its environment.”

India Inc has several successful corporate trans-

formation stories to tell, many of them in traditional legacy industries, which, even a decade ago feared that they would be wiped out by foreign competition. In 1991, when Tata Steel embarked on its transformation journey, it was a small (by international standards), overstaffed commodities company with obsolete technology. Fourteen years later, it is one of the world’s most efficient and lowest cost steel makers with a global footprint and international outlook. In the phar-

maceutical industry, Ranbaxy has successfully emerged as a research-led generics company that is already among the top 10 in its class in the world.

So, despite the evidence that performance transformation journeys result in more misses than hits, the many success stories across industries has convinced McKinsey that such makeovers are possible—and eminently achievable—for almost any business.

That brings us to the next, and, arguably, the most important question: what are the key ingredients of success? The consultancy major’s research points critically to the leader’s ability to create, sustain, and channel his/her organisation’s energy towards creating lasting change. To do this, the company has to ensure tight control over six parameters: a rigorous programme architecture; an emphasis

on both performance and corporate health; appropriate aspirations and the right pace to meet them; embedding change in the organisation’s workings and processes; changing the way employees behave; and transforming the company’s leadership.

These six parameters provide the architecture within which transformations can be successful. The McKinsey report says: “As we consider each catalyst in turn, it will become clear that there is no silver bullet,

**For most companies,
performance transformation
is an imperative, not a
jargon-filled management
exercise which can be
interpreted by consultants**



no single pivotal action or event that can guarantee success for a corporate transformation. A transformation isn't about an energising vision or change champion or any of the other panaceas that have been trumpeted in the past. For many reasons, transformational change is difficult and stretches leaders in many ways."

The first parameter, rigorous programme architecture, ensures that the transformation effort stays within the remit of the brief and carries the company closer to its goal. Great care has to be exercised while drawing up the programme. "At Infosys, five to eight themes are frozen for the one-year transformation plan (the other two time horizons are three years and five years)," says Sanjay Purohit, Assistant Vice President and Head of Corporate Planning at the company. "Each theme is broken into manageable pieces and an execution strategy is put in place through a STRAP (Strategy and Action Planning Event). And these themes aren't woolly, in-the-air things. There are clearly defined metrics on which we measure and define the outcomes," he adds.

Defining the metrics on which the transformation outcomes are judged helps guard companies against dissipating their energies on a plethora of ill-defined initiatives. The McKinsey report points out that "some companies, for example, hope to release pent-up entrepreneurship within its ranks and so let a thousand flowers bloom. Despite good intentions, these companies may well end up facing 'death by a thousand initiatives', which are basically well intentioned impulses that splinter into a multitude of parallel projects that lack the scope needed to transform the organisation."

But, the report warns, rigidity of programme architecture should not be confused with micro-programming and micro-managing every nut and bolt of the desired change story as

Recognise The Specific Performance And Health Challenges In Transformation

"Performance"- Delivering impact today		"Health"- Building capacity and capability to sustain and evolve performance over time
● Winning games and titles ● Satisfying fans and financial backers	Managing Football Teams	● Building a squad with strength in depth ● Building and maintaining a stadium
● Winning battles ● Training and motivating troops ● Upgrading equipment	Waging War	● Clear political goal ● Popular moral support ● Sustainable post-war strategy
● Increasing disposable income ● Providing social services	Managing National Economy	● Investment in (e.g.) education, transportation ● Regulating exploitation of (e.g.) labour and the environment
● Meeting expectations for financial and operating performances	Managing A Business	● Inspiring goals and leadership ● Robust accounting, incentives, and governance ● Investment in training, R&D, the brand, physical assets, etc.

Source: McKinsey reports

GRAPHICS BY PINAKI PAUL

this can suppress individual initiative and tie what is essentially an entrepreneurial exercise into bureaucratic knots. The ideal programme breaks the aggregate transformation story into three distinct levels. At the top level is the big picture: the desired transformation's story. At Tata Steel, for example, the big picture was to become one of the world's most efficient and lowest cost steel producers. At the level immediately below this are the chapters in the transformation story; the report defines these as "its core performance themes (typically three to six), such as boosting geographic reach, achieving operational excellence, and building a service business. These themes are more powerful than any conventional change slogan because they describe the company's future transformed state in vivid but credible terms." The third stage, at the level "closest to the

ground are the individual initiatives that deliver the transformation story, perhaps five to ten for each theme, such as improving the way projects are managed, designing to cost, and implementing procurement initiatives. These concrete, high impact initiatives turn the change agenda into a

**According to McKinsey,
"there is no single bullet, no
single pivotal action or
event that can guarantee
success for a corporate
transformation"**

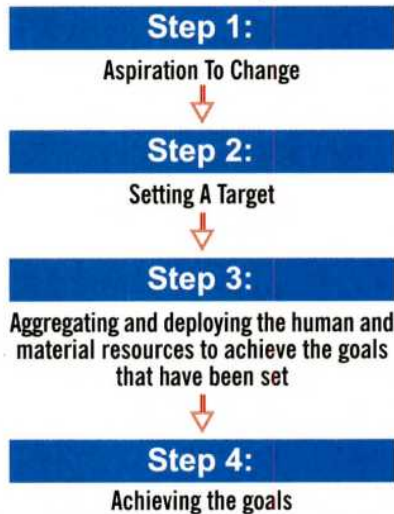
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reality on the frontlines.”

Breaking up the transformation story into these smaller chapters has obvious benefits. The top managements of India Inc—and elsewhere—set goals across several time frames. And disaggregating the three stages of the change agenda gives the top brass the space to strategise over a reasonable period of time (five to 10 years), even as the individual transformation themes are in sync with managerial tenures (two to four years) and on-the-ground initiatives correspond to typical project life cycles (six to 30 months). Most importantly, such a layered approach allows managements to rapidly zero in on their goals without losing control “since a relatively rapid sequence of initiatives at the lowest level is compatible with a slower pace of change in the transformation themes and greater stability in the overall change agenda.... Finally, it helps companies achieve a real alignment among managers who contribute to the transformation in very different ways,” says McKinsey.

We now come to the second point in the transformation architecture: how do managements balance

A Typical Transformation Journey



This is a continuous process; the bar is set higher at the end of each cycle of transformation, taking the company or the organisation to ever higher planes of achievement and transformation

Source: McKinsey reports

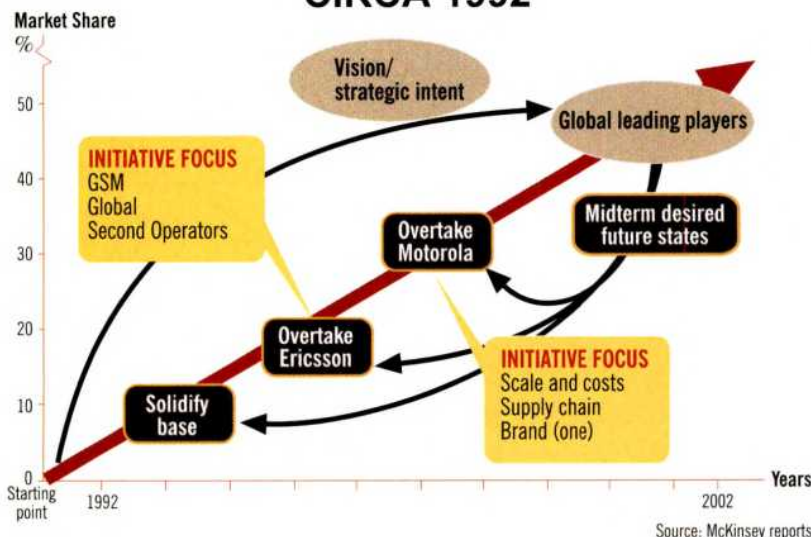
the pressure to delivery quarterly results with the need to nurse a company's health and, thus, secure its long-term performance goals. The 24x7 scrutiny by the media of quarterly corporate figures and of stock price movements has only exacerbated concerns that many companies are paying too much attention to immediate performance and spending inadequate time on building up long-term sustainability of performance. An example: companies may be able to shore up their immediate performance by cutting down on R&D expenditure; the savings go straight to their bottomlines, thus, giving a rosy impression. But cut-backs in research can affect a companies' ability to throw up winning products in future and hamper its competitiveness and profitability. Result: such a haemorrhaging product pipeline can result in a sudden and painful drop in performance from which recovery can be difficult.

Fortunately, most managements now recognise that performance (delivering results) and health (the ability to sustain and improve performance) are not in conflict. “R&D is a long-term investment and improves

the health of the company,” says Brian Tempest, Chief Mentor and Executive Vice-Chairman, Ranbaxy. “This is complementary to operational issues that determine performance.” Properly enunciated transformation programmes, thus, clearly define priorities and focus equally on both performance and health.

That brings us to the next step in the transformation effort: aspirations and pace. “Efforts to transform companies are often undermined by incrementalism or by a failure to translate ambitious but general aspirations into compelling stretch objectives that can be acted upon effectively,” says McKinsey, adding that “by

Case Example: Nokia Handset Vision CIRCA 1992



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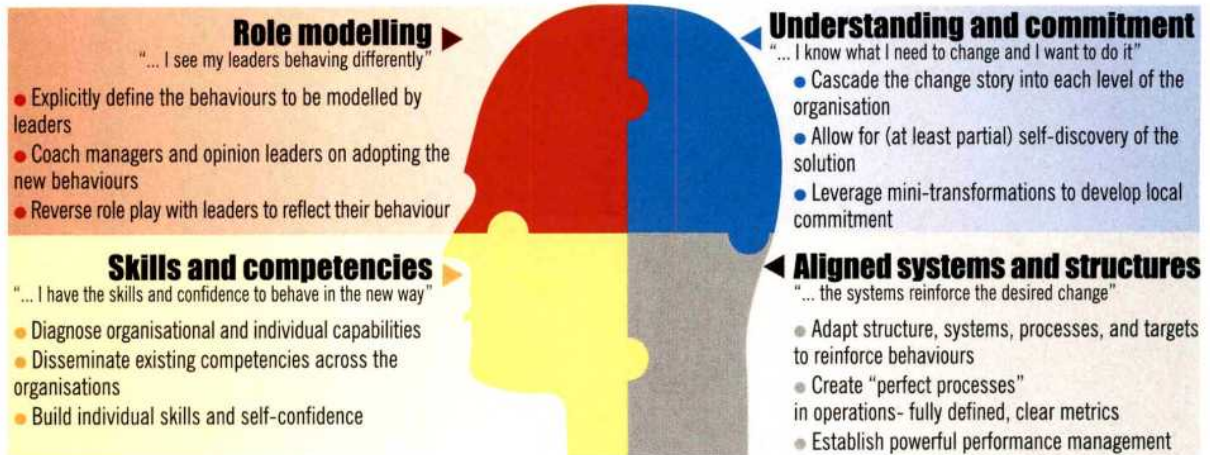
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Mindsets And Behaviours Can Be Successfully Changed By Pulling Hard And Soft Levers Simultaneously

"I will change my behaviour, if..."



Source: McKinsey reports

contrast, the leaders of successful transformations help raise performance to new heights by developing a long-term vision and then working backward from it to define a mid-term future state for each transformation theme. Because such future states are nearer and clearer than the performance vision, they have the immediacy and concreteness needed to inspire stakeholders, set a rapid pace for change, break through resistance, and encourage an action-oriented mentality right down to the frontline."

This begs the next question: if managers are going to spend all their time working on achieving mid-term goals, of what use is the long-term performance vision? McKinsey's response: it ensures that management launches a programme that is not an isolated performance initiative but, rather, the first major stage in a longer process. "Ultimately, a transformation effort will not be a major success unless a company moves beyond what it can fully imagine at the starting point."

"It's a classic marathon. What happens if you run too fast early? You tire out. And if you run too slowly early on? You find it diffi-

cult to catch up. You have to maintain a steady rhythm and at appropriate points of time, have burst into a sprint," says Uday Kotak, Executive Vice Chairman and Managing Director of Kotak Mahindra Bank.

Getting the aspiration for change right is just as important as setting the pace. Continuous improvement and the big bang transformation are both part of this aspiration. "There is usually one discontinuous change that

Make Changes As Physically Evident As Possible

Asset reconfiguration

New layout

Workplace organisation

5 S (sort, set in order, shine, standardise, sustain)

Logo change

e.g., during transformation

New IT tool

e.g., on-screen auction for procurement

New office/ team layout

application to back office

Source: McKinsey reports



From functional split to integrated one piece flow in a U-cell

From chaos to an organised, clean working environment

New logo to imbue new mood/ values

From manual RFP process to Web-enabled E-RFQ/ E- RFP process

From inefficient layout to one aligned to work flow



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takes a company to a new, higher plane; and there has to be continuous improvement thereafter," says McKinsey's Tsun-yan.

In early 2002, for instance, Ranbaxy embarked upon a visioning exercise for the year 2012 knowing fully well that its Vision 2004 (to become a \$1 billion, or a Rs 4,500-crore company) was on course. "A cross-functional team of 40 top Ranbaxy managers and some experts from McKinsey held an intensive three-day brain-storming session; after a thorough analysis, extensive debates and a series of presentations, the group finally articulated its Vision & Aspirations 2012 document. Our Aspirations 2012: be a \$5-billion (Rs 22,500 crore at current exchange rates) company, to achieve significant revenues from proprietary prescription products, and to become a top five Global generics player by 2012. The Vision and Aspirations have not changed thereafter and we are well on course towards achieving them, says Tempest.

Performance, health, pace and aspirations are all intangibles. Most people find it difficult to relate to things they can't see, touch or feel. Thus, it is important for managements to ensure that changes manifest themselves physically early on in the transformation story. Simple things like changing the office or factory layout, reconfiguring seating arrangements, redesigning logos, etc, contribute tremendously to embedding changes within the psyche of organisations and their employees. Kotak Mahindra Bank, for instance, adopted a new logo called "Infinite ka" in red, blue and white, to reflect the bank's global Indian personality. The ka is uniquely Indian, while its curve forms the infinite sign which is universal. The logo conveys that Kotak has infinite ways of meeting individual needs. In parallel with these conceptual changes, managements must also ensure that operational processes are transformed. This tells customers and other stakeholders that the changes are irreversible and that the company will not return to its old ways.

In 2003, as Infosys was racing full tilt towards becoming a multi-billion dollar company, clients began to ask uncomfortable questions over the scalability of the organisation's delivery model. To try and keep pace with the company (and indeed the rapidly evolving industry's growth) Infosys rejigged its structure to focus on specific high-growth industries; this was a fundamental shift from its previous model of orienting itself towards specific technological capabilities. "We believed that this would enable us to focus on new vertical markets and provide business solutions leveraging technology and our global delivery model," says Nilekani.

Companies embed operational changes in many different ways. According to McKinsey, "one frequent and visible change, employed in an increasing range of industries, is to incorporate 'lean' thinking in operational processes. Lean began as an automotive-inspired and assembly-oriented methodology, but has become well established in a range of financial, process, and service

industries as well as in the public sector. While the concepts of the lean approach are familiar, its success depends not just on rolling out new techniques but also on changing both an organisation's environment and its basic ways of working. (This immediate physical impact distinguishes the lean approach from activity-based processes such as Total Quality Management and Six Sigma, which, when poorly embedded, generate reassuring activity and enthusiasm without producing any tangible or lasting benefit.) Managers must make their employees aware that a problem exists, demonstrate the benefits of the new approach, and create the conditions for embedding it. At a manufacturing company, this approach means taking very practical steps: finding the right tools for the job, making the equipment more reliable, avoiding unnecessary changeovers, and planning production more effectively. Making these changes reduces waste and raises the baseline for



WHAT WE BELIEVE IS IMPORTANT

- Use the transformation as an opportunity to drastically increase leadership capacity
- Align and energise the top team (and all teams) over time—be ready to convert, transform, or change half or more
- Leverage the line to drive the transformation, with support from a temporary programme office

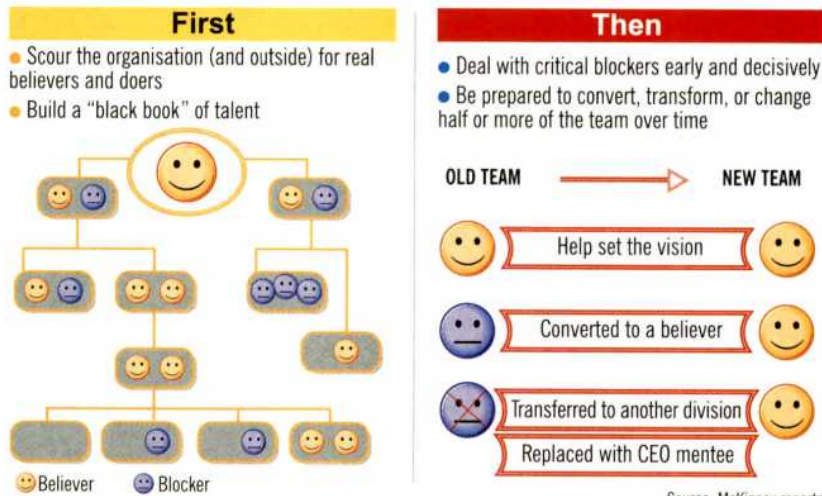
the next set of changes”.

But embedding and internalising change isn't by any means the end of the performance transformation journey. Rather, it is an ongoing process of learning, unlearning and relearning that companies—and their employees—have to go through in the search for that elusive competitive advantage. As McKinsey puts it, “well-embedded change is powerfully catalytic because there is no going back once a bridge has been burned”.

But ultimately, management is all about handling people and getting them to perform designated tasks. Thus, it is imperative to change the way employees think. Without this, no transformation programme can take root in any company. To do this, one has to captivate the hearts and minds of one's colleagues, co-workers and employees. Just talking about change, or even appearing earnest about it, will not enthuse people, inherently resistant to change, to sacrifice habits and a culture built over years, sometimes decades. The management must be able to convince them of the need for change. “That's when all employees understand where they are going, figure out what they must do to get there, and really live the changes needed for the overall transformation,” says McKinsey, which has even worked out the four enabling factors that hold the key to changing employees' mindsets:

- 1) Understanding and Commitment: Employees must know and realise what they need to change, and having done that, must really want to do so;
- 2) The company's systems and structures must be aligned to and consistent with the expected behavioural patterns and must actively support it;
- 3) Employees must be made to believe that they have the skills and competencies they need to behave differently; the company must impart proper training and make available necessary resources to bring this about; and
- 4) They must have role

Align And Energise The Top Team (And All Teams) Over Time



Source: McKinsey reports

models: it's crucial to see that leaders are behaving in the new ways.

On the flip side, a person's mindset and behaviour will probably not change if one or more of the above elements are missing.

It has also been noticed that peer pressure is a strong change catalyst, i.e., the group within which a person operates strongly influences his/her receptivity to change. Thus, influencing groups of people as a whole is a proven way of bringing about mindset changes in companies.

But the most critical factor in any transformation story is, arguably, leadership. Most failures in transformation stories can be directly linked to the inadequacies of the people who are leading the initiative. “When real leadership is absent and nominal leaders don't have the courage to convert or remove the people who block change, an organisation can quickly run out of energy,” says McKinsey.

But happily, the reverse is also true. Companies should rigorously assess their demand for leadership (the pivotal jobs that have the greatest impact on their performance) and its supply (their strongest managerial talent), advises the consultancy major. Such an assessment gener-

“One frequent and visible change, employed in an increasing range of industries, is to incorporate ‘lean’ thinking in operational processes”

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ally reveals immediate opportunities for triggering virtuous spirals, in which better performance and better leadership reinforce each other. The key is to design the transformation with this spiral in mind. In fact, a great CEO uses a transformation programme as a compelling opportunity to expand the leadership capacity of the company and to align and energise the top team and leaders throughout the organisation. "Leadership is absolutely critical. It makes all the difference when leaders are able to make the case for change meaningful to everyone in the company, not just for senior managers. Likewise, their ability to balance growth with strengthening their core business is crucial. Great leaders don't see this as a trade-off; they see the strengthening of their core capabilities in their domestic business as a means of building of their arsenals, which they can tap for growth elsewhere. They also know how to maintain cultural values that are core to their being even as they expand rapidly," says Tsun-yan. Adds Kotak: "It is a continuing journey. I, too, keep learning. I am as much a part of leadership as everybody else. Management success at some level is a combination of passion and process. Process alone takes you up to a point, but you need passion too. I want my entire team to have both."

And here, leadership is not only about drawing the big picture and ensuring that all the pieces of the jigsaw puzzle fall into place; it is also about setting the standards and leading by example. McKinsey studies indicate that "once the transformation has been announced, the organisation will closely monitor the CEO and the top team for signals that indicate the degree of their commitment to the new course. Any reversion to the old ways, even if it is justifiable in a particular case as a temporary expedient, will be taken as evidence that

'this too shall pass'. Such moments of truth, which might, for example, involve the way the CEO and the top team deal with the inevitable setbacks, can't be avoided or put off; they must be tackled directly, one by one. So it is not just the scale and variety of the predictable challenges that CEOs must ponder before committing themselves to a transformation. They must also ask: 'Am I ready to take on each new challenge that surprises me during this transformational journey?' The personal cost is indeed great, but so is the opportunity.

What exactly is this opportunity? And is it worth the cost? Says Tsun-yan: "Some companies have leveraged the successful implementation of performance transformation programmes to achieve Asian leadership status in their chosen sector. Some of them, like Samsung Electronics and Toyota, have even built on their Asian dominance to build global leadership positions. Toyota, for instance, is well on its way to becoming the largest automaker in the world; and it is, arguably, already the best." So, if the world is your oyster, then performance transformation is the way forward.

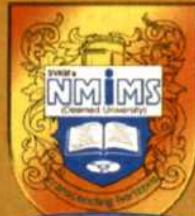
Adds Nilekani: "As the world economy continues to grow, businesses will increasingly exploit opportunities in the global marketplace. The greatest benefits

of globalisation will accrue to countries, businesses and communities that can access and adopt new technologies in all walks of life. More firms will become global, and those operating in the global arena will become more diverse, both in size and origin." And that, in turn, will force more companies to undertake transformation journeys. Is there a message here for India Inc? ■

ADDITIONAL REPORTING BY VENKATESHA BABU IN BANGALORE, RITWIK MUKHERJEE IN KOLKATA AND ASHISH GUPTA IN DELHI

Most failures in transformation stories can be directly linked to the inadequacies of the people who are leading the initiative





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TSUN-YAN HSIEH, CHAIRMAN, ASIA, MCKINSEY & COMPANY

“Indian Companies Must Pay Attention To Developing Leaders”

TSUN-YAN HSIEH, CHAIRMAN, ASIA, MCKINSEY & Company, is an acknowledged expert in the field of performance transformation. He met up with *Business Today* on a recent trip to India and spoke at length on the subject. Excerpts from the interview:

Why is performance transformation important for companies today?

As the business climate becomes more demanding, even companies that perform much better than their peer group find themselves aspiring and preparing to grow rapidly, usually in overseas markets. At the same time, they continue to revamp and reinvent themselves in order to retain their competitive edge in their home markets as these markets open up to both internal and external competition. This process of constant change and a company's response to it determines how competitive and relevant it remains in the context of its environment.

By performance transformation, do you mean continuous improvement or one big transformation?

Both—there is usually one discontinuous change that takes a company to a new, higher plane; and continuous improvement thereafter.

What are performance transformation trends that are apparent in Asia?

The first is the rapid pace of change in individual countries; this is very often brought about by market barriers coming down (like banking regulation changes in China, customs duty reductions in India, etc). Companies have to transform themselves in order to remain competitive in this new, more open economic environment. Then, performance transformation is also driven by the ambitions of aggressive companies. This imposes a great deal of strain not only on the companies initiating the process of change but also on its competitors, its vendors, its suppliers and its associates. Result: companies are forced



RAMEN SARKAR

McKinsey's Chairman, Asia, Tsun-yan Hsieh: "Companies have to transform themselves in order to remain competitive in this new, more open economic environment"

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to move at speeds they've never done before. And the scale of change is unprecedented; here, we're not talking of one city or one function, but wholesale changes taking place simultaneously across several functions and geographies. Some of the Chinese players have enormous scales of operations—they need to involve about half a million members in their transformation programmes. Yet another issue is the aspirations of the transforming companies—in most cases, they are not transforming to fix a problem, but doing so in order to achieve regional and/or global dominance. Asian steel companies, for example, occupy four of top five spots in the world by capacity (The global list: Mittal Steel, Arcelor, Nippon, JFE and Posco). They want to conquer the world. This is what makes performance transformation relevant to Asia.

Are there any particular sectors in Asia in which this trend is more easily noticeable?

We see performance transformation programmes mostly in the following sectors: financial services, petroleum, continuous process industries (like steel, for example), consumer products, high technology and telecom.

How have companies benefitted from performance transformation?

Some companies have leveraged the successful implementation of performance transformation programmes to achieve Asian leadership status in their chosen sector. Some of them, like Samsung Electronics and Toyota, have even built on their Asian dominance to build global leadership positions. Toyota, for instance, is well on its way to becoming the largest automaker in the world; and it is, arguably, already the best.

What is the critical catalyst for the success? Does this vary from country to country in Asia?

Country variations are mainly in terms of raw material advantage (such as iron-ore reserves in India) or large domestic markets (like high demand for automobiles in India and China). However, the overriding catalysts for success are the top management aspirations, leadership capacity, capabilities and a

mindset that plays to win.

You've said a leader's ability to create, sustain and channel energy is critical for success. Please elucidate.

Leadership is absolutely critical. It makes all the difference when leaders are able to make the case for change meaningful to everyone in the company, not just for senior managers. Likewise, their ability to balance growth with the imperative of strengthening their core business is crucial. Great leaders don't see this as a trade-off; they see the strengthening of their core capabilities in their domestic business as a means of building of their arsenals, which they can tap for growth elsewhere. They also know how to maintain cultural values that are core to their being even as they expand rapidly.

Why, if any, have transformation initiatives failed in Asia? What is the success rate for performance transformation?

A good percentage of performance transformations have failed not just in Asia but all over the world. The ones that have failed in Asia suffered from three fundamental problems: First, they did not address the leadership gap; secondly, they did not think through their business models before expanding

overseas and discovered too late that the necessary adaptations were not made; and thirdly, they had not rigorously crystallised their capabilities into transportable methods, skilled people and transferable processes. So when they expanded, their home base capabilities were stretched too thin—there were just too few good men and women who knew how the whole system worked.

Are there any lessons from the Asian experience that could be useful to Indian companies?

Indian companies have the inherent advantage of a very strong pool of talented people. Some of them even have business models that give them low cost but high performance products. But the most common gap I see lies in leadership capacity. Indian companies must pay serious attention to developing the quality and quantity of leaders that match the nature of their aspirations. ■

"Some companies have leveraged the successful implementation of performance transformation programmes to achieve Asian leadership status"

MANAGEMENT DEVELOPMENT PROGRAMMES

Annual Calendar - April 2006 To March 2007

PROGRAMME TITLE	FROM	TO	PROGRAMME DIRECTOR/S	PROGRAMME TITLE	FROM	TO	PROGRAMME DIRECTOR/S
GENERAL MANAGEMENT				HUMAN RESOURCES			
General Management for Senior Executives - Session 107	05-Jun-06	30-Jun-06	D D Chaudhari	HR Audit	05-Jun-06	07-Jun-06	U Pandey
Management Audit	07-Aug-06	11-Aug-06	Sudha Swaminathan	Communication Skills for Managers	19-Jun-06	23-Jun-06	Prabhathi Pati
MDP for Women Executives	14-Aug-06	18-Aug-06	Prabhathi Pati	Managing Stress at Work Place	03-Jul-06	05-Jul-06	R N Saxena
Advanced Management Programme (Study Tour to France, Switzerland, Netherlands & Belgium)	21-Aug-06	08-Sep-06	Nirmala Apasingkar	Leadership through NLP	17-Jul-06	19-Jul-06	Prabhathi Pati / V K Thalithaya
Managing Family Business	04-Sep-06	08-Sep-06	S Padam	Emotional Intelligence	24-Jul-06	26-Jul-06	R N Saxena
Management of Corporate Hospitals	16-Oct-06	20-Oct-06	Ramesh Durvasula	Strategic Human Resources Management	31-Jul-06	04-Aug-06	U Pandey
Programme for Young Managers	04-Dec-06	15-Dec-06	S K Ghosh	Negotiation Skills	14-Aug-06	16-Aug-06	A A Firdausi
Agribusiness Strategies for Global Competitiveness	11-Dec-06	15-Dec-06	H Hemnath Rao	Managing Creativity	11-Sep-06	13-Sep-06	Prabhathi Pati
Management of Residential and Public Schools	18-Dec-06	22-Dec-06	S Padam	Personal Growth for Effective Leadership	18-Sep-06	22-Sep-06	R N Saxena
General Management for Senior Executives - Session 108	08-Jan-07	02-Feb-07	Usha Ramachandra	Effective Human Resource Training & Development	06-Nov-06	10-Nov-06	U Pandey
Strategic Management Workshop	12-Feb-07	16-Feb-07	B Kinnera Murthy	Personality Development	13-Nov-06	17-Nov-06	R N Saxena
Management of Hospitals	19-Feb-07	23-Feb-07	Ramesh Durvasula	Management of Change	20-Nov-06	24-Nov-06	A A Firdausi
ECONOMICS				Managing Human Relations in Organizations	27-Nov-06	01-Dec-06	Prabhathi Pati
New Tax Regime & Its implications (Fringe Benefit Tax, Service Tax and VAT)	07-Aug-06	09-Aug-06	D D Chaudhari	Human Resource Management for Line Managers	11-Dec-06	15-Dec-06	U Pandey
Intellectual Property Rights and Challenges for Industry	27-Nov-06	30-Nov-06	Paramita Dasgupta	Transactional Analysis for Interpersonal Effectiveness	18-Dec-06	22-Dec-06	A A Firdausi / V K Thalithaya
FINANCE				Competency Management	03-Jan-07	05-Jan-07	S K Ghosh
Strategic Financial Management (Kolkata)	07-Jun-06	08-Jun-06	Mubeen Rafat	Leadership & Organization Development	08-Jan-07	12-Jan-07	R N Saxena
Corporate Governance for Directors	06-Jul-06	07-Jul-06	Mubeen Rafat	Strategic Human Resource Management	15-Jan-07	19-Jan-07	U Pandey
Mergers & Acquisitions	15-Aug-06	18-Aug-06	Mubeen Rafat	Team Building and Conflict Management	05-Feb-07	09-Feb-07	A A Firdausi
Corporate Finance for Decision - Makers (off Campus)	06-Nov-06	08-Nov-06	Mubeen Rafat	Managing Employee Redundancy	12-Feb-07	14-Feb-07	S K Ghosh
Managing Costs to Manage Profitability	22-Nov-06	24-Nov-06	Sudha Swaminathan	Enhancing Managerial Effectiveness	19-Feb-07	23-Feb-07	A A Firdausi
Finance for Non-Finance Executives	04-Dec-06	08-Dec-06	Mubeen Rafat	Communication Skills for Managers	26-Feb-07	02-Mar-07	Prabhathi Pati
Corporate Governance for Directors	21-Dec-06	22-Dec-06	Mubeen Rafat	Effective Trade Union Management	12-Mar-07	16-Mar-07	S Padam
Asset Securitization	10-Jan-07	12-Jan-07	Mubeen Rafat	MARKETING			
Strategic Financial Management	23-Jan-07	25-Jan-07	Mubeen Rafat	Strategic Brand Management	12-Jun-06	16-Jun-06	To be announced
Shareholder Value Creation	05-Feb-07	07-Feb-07	Sudha Swaminathan	Sales Management	10-Jul-06	14-Jul-06	V Sanal Kumar
OPERATIONS				Strategic Marketing	07-Aug-06	11-Aug-06	B Kinnera Murthy
Procurement Procedures for the World Bank Aided Projects	10-Jul-06	21-Jul-06	B S Chetty	Product Strategies & New Product Development	09-Oct-06	13-Oct-06	V Sanal Kumar
Materials Management	07-Aug-06	11-Aug-06	R S Chalapathi	Workshop on Rural Marketing	18-Dec-06	20-Dec-06	V Sanal Kumar
Procurement Procedures for the World Bank Aided Projects	09-Oct-06	20-Oct-06	B S Chetty	Sales Management	15-Jan-07	19-Jan-07	V Sanal Kumar
Design for Six Sigma (DFSS)	23-Oct-06	27-Oct-06	R S Chalapathi	Marketing of Services	12-Feb-07	16-Feb-07	V Sanal Kumar
Lean Manufacturing	13-Nov-06	17-Nov-06	R S Chalapathi	IT, INNOVATION & TECHNOLOGY			
Six Sigma for Services, ITes, BPOs and KPOs	07-Dec-06	09-Dec-06	R S Chalapathi	E-Security-Policies, Technologies & Solutions	26-Jun-06	30-Jun-06	M Chandrasekhar
Project and Contract Management	11-Dec-06	15-Dec-06	B S Chetty	E-Business-Strategies and Solutions	25-Oct-06	27-Oct-06	Nirmala Apasingkar
Procurement Procedures for the World Bank Aided Projects	22-Jan-07	02-Feb-07	B S Chetty	IT - Enabled Opportunities in Banking	06-Nov-06	10-Nov-06	M Chandrasekhar
HEALTH STUDIES				Business Intelligence with Data Warehousing and Data Mining	18-Dec-06	20-Dec-06	Nirmala Apasingkar
Medical Audit	01-Aug-06	03-Aug-06	P H Rao	Management of IT	05-Feb-07	09-Feb-07	M Chandrasekhar
Medical Laws and Ethics	04-Sep-06	06-Sep-06	P H Rao	IT Enabled Knowledge Management	26-Feb-07	28-Feb-07	Nirmala Apasingkar
Improving Quality in Health Care	09-Oct-06	13-Oct-06	P H Rao	URBAN GOVERNANCE			
Core Managerial Skills for Health Professionals	06-Nov-06	10-Nov-06	P H Rao	Moving towards continuous (24/7) water supply in Urban Areas	10-Apr-06	14-Apr-06	V Srinivas Chary/ U Sridevi
Communication & Advocacy skills for Health Professionals	04-Dec-06	08-Dec-06	P H Rao	ASCI-WBI Certification Programme in Urban Management in India : 2006			
Principles & Practices of Social Marketing for Health and Allied Professionals	05-Feb-07	07-Feb-07	P H Rao	Phase-I	17-Jul-06	28-Jul-06	V Srinivas Chary/ A Narender
				Phase-II	28-Aug-06	01-Sep-06	
				Phase-III	1st week of Dec-06		
				Strengthening Urban Management in India	15-Jan-07	19-Jan-07	V Srinivas Chary/ A Narender

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GAUTAM KUMRA/ PARTNER/MCKINSEY & CO, INDIA

“You Have To Balance Quarterly Earnings With Long-term Well-being”

GAUTAM KUMRA, PARTNER, MCKINSEY & Company, discusses the meaning, scope and future of performance transformation in the Indian corporate sector with Business Today. Excerpts:

What does performance transformation mean?

Performance transformation is a fundamental, substantial and sustainable shift in the level of performance in a company. This is usually accompanied by fundamental changes in the quality and capability of leadership and organisational processes so that the change is sustainable over time. Moreover, to sustain a higher level of performance over time, a company has to make changes in its systems, processes and capability in order to support the higher level of performance.

Is transformation a must for every company?

No, it is not something every company has to go through. But, nonetheless, companies that want to stay in the game, need to constantly reinvent themselves and this itself calls for periodic transformations.

What is driving performance transformation in India?

Different categories of companies are facing transformation challenges for different sets of reasons. These can be broadly classified under three heads: first, companies that are trying to globalise in industries like automobiles, pharmaceuticals and information technology, where India has a fundamental competitive advantage; secondly, monoliths that have to change because of changes in their business environment. Today, liberalisation and deregulation have intensified competition and forced large public sector companies in the country to undertake transformation programmes. And lastly, new companies, that are still relatively small, are pursuing fundamentally different



PHOTOGRAPHS BY VIVAN MEHRA

McKinsey's Kumra: Says that if companies want to stay in the game, they must constantly reinvent themselves

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business models to achieve rapid growth. For example, a company with a Rs 100-crore turnover may aspire to increase this revenue base by a factor of 10 over the next three years, or a local Indian company may acquire an international company with significantly higher scale. Alternatively, the appointment of a new CEO could begin the transformation journey at a company.

Do transformations involve the entire company?

Transformations can happen at various levels. It could be at the level of the entire company; a leading Indian pharmaceutical company, for example, has articulated its vision of scaling up from \$1 billion (Rs 4,500 crore) revenues in 2004 to \$5 billion (Rs 22,500 crore at today's exchange rate) by 2012. Of this, \$2 billion (Rs 9,000 crore) will come from new innovations and \$3 billion (Rs 13,500 crore) from existing businesses. That is an example of a company-wide transformation over the next eight to 10 years.

Who drives the transformation?

Transformations have to be driven by the top management team. However, depending on the size of company and the nature of transformation challenges, it could be the CEO or head of a business unit who might drive this change.

What according to you would be the best model to bring about performance transformation?

We have done significant research to find an ideal model. Successful transformations are rare and a majority of such efforts have failed for one reason or other. If you look at the few that have succeeded, you will find there are some six common best practices:

- Getting the overall architecture of transformation right;
- Addressing both short-term performance and long-term health;
- From an early stage, there have to be fundamental, visible changes in the operating systems at the company; for example, a telecom company may change the physical layout of its call centres. There have to be changes in the way company is run on a day-to-day basis. If not, then it

is hard to make the changes stick over time;

- Defining what you expect the organisation or theme that you are working on to look like three years hence? This is not about a 10-year vision; it has to be something more near-term, that is actionable and will motivate the organisation to act;

- Building leadership capabilities. You will have to accelerate leadership development to successfully transform the company. This could be through a combination of getting people from outside and accelerated growth for performers within; and

- Finally, in order to make the transformations stick, you have to influence the mindset and behaviour of individuals in the organisation.

Of the three components of transformation—organisational, operational and leadership—which is the most critical?

It is hard to say which one is more important as there is an interplay between all three. A few observations will be relevant here. Leadership constraints have to be explicitly understood and addressed upfront. The organisational and operational initiatives have to be integrated. Very often, we find that an organisation develops initiatives that are divorced from business realities. For example: if a consumer goods company wants to enhance its marketing capabilities, it can begin by saying: let's write a sales manual, put people into training, decide on marketing practices, write standard operating procedures and so on. But

this is not good enough. The way to make it work is to marry the organisational initiatives such as skill-building or change in performance management systems with the operational initiatives that deliver revenue growth.

What about the pace of change?

The pace is important since transformation journeys are not risk-free. If you overshoot the optimal pace, you can make expensive mistakes. Consider the example of Hyundai, one of the most successful emerging market companies, and one that is already a global champion. Hyundai grew its revenue from \$9 billion (Rs 42,300 crore) in 1993 to \$39 billion (Rs 1,75,500 crore) in 2004; it derives almost



"Transformation is not business as usual. You have to feel the faster run rate"

half of this from the overseas market. Yet, between 1990 and 2000, the company ran into massive problems in the US as quality levels fell, products were recalled and distributors were no longer ready to buy its products. A lot of this had to do with the fact that the company raised its aspirations and entered an intensely competitive market before it was ready to do so. On the other hand, Toyota was more measured in its global journey and, therefore, did not have to pull back.

The pace of transformation is a function of many things, including the aspirations of the top management team, the expectations of stakeholders and the mandate, vision and horizon of the CEO. But having said that, transformation is not business as usual. You have to feel the faster run rate. How fast? That will depend on the company. So, if a company has made a big loss, it has to fix it fast and doesn't have the luxury of waiting for five years to do so.

To what extent does the process require leadership change?

Leadership is one of the determinants of the pace of transformation. Most successful transformations lead to a significant strengthening of the leadership. If you look at emerging markets, only a few companies have leadership capabilities to build businesses outside their home markets. You need a particular type of leader to build a business in India; and another type to build one in China. How do you groom leadership talent to pursue new opportunities that you target? It is a cycle—leadership drives aspirations and aspirations, in turn, drive leadership.

How do Indian companies fare on the leadership metric?

Indian companies are trying a number of things with a mixed degree of success. Most companies are adopting the systems approach to leadership development as opposed to the people approach. There is a lot more focus on putting management processes in place—talent management systems, performance appraisal processes, performance review systems, compensation systems and benchmarking studies. Companies are trying hard to attract new talent and bring in differen-



"Leadership drives aspirations and aspirations, in turn, drive leadership"

tiation so as to reward the performers. But a number of critical things are not happening. This is what I call the "people approach". For instance, there isn't enough of real performance dialogue happening. These are dialogues where the top management treats others down the line as leaders and not as resources. They engage in conversations on expectations from people and provide them feedback and support to be successful. McKinsey research suggests that the best way to groom leadership in a company is by creating special projects and special initiatives and not only through training. However, hardly any company has a systematic mechanism for identifying opportunities and matching them with leaders. I can't think of a single successful

transformation where the leadership has remained intact. If you look at a five-year period and the top 30 people in a company, you will see radical changes.

Is the success rate for transformation sector-specific?

Transformation is more about leadership aspirations and companies and less about industries. Our research suggests that there are significant differences in performance across companies within the same industries. Look at the steel sector—some companies are transforming while others are dying.

What are the main challenges during transformation?

I don't think companies have figured out how they will deal with the challenge of leadership development, and how to make sure that they don't fragment the energy of the entire organisation by pursuing too many initiatives. Companies are also struggling with pace issue—how do you balance next quarter earnings with long-term wellbeing. While analysts may expect the company to deliver 20 per cent earnings growth, companies sometimes do that by cutting R&D expenditure, which, in turn, affects the flow of new products. Should the company invest in R&D for the next three years and not deliver earnings the next quarter and, thereby, take a beating in the market? These are the kind of issues that top managements have to think about while managing transformations. ■

TATA STEEL

REINVENTING

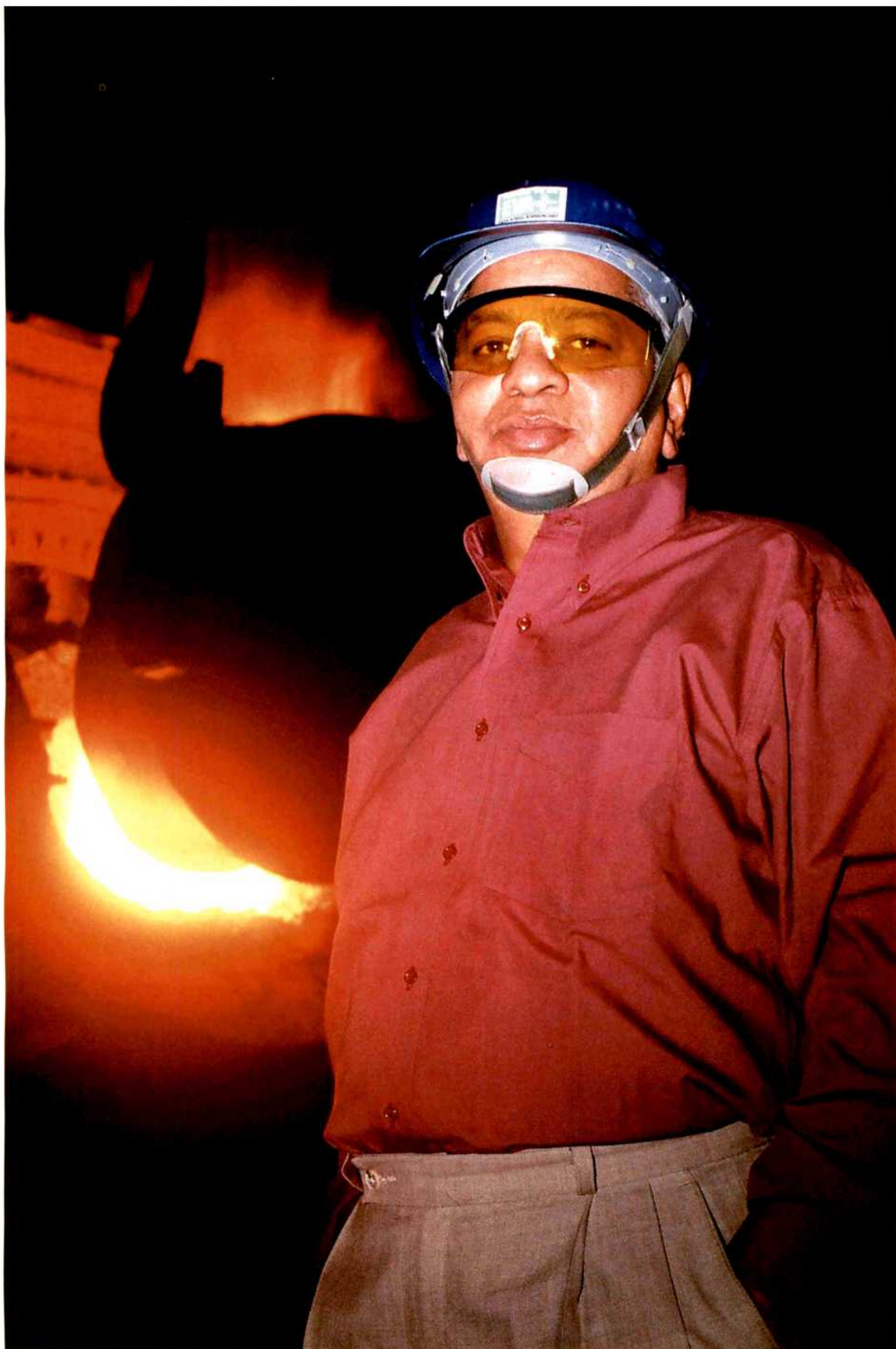
AN ICON

Tata Steel's transformation journey began in 1992. Since then, it has transformed itself from a company on its last legs to the lowest cost steel producer in the world. Its next goal: become India's first steel MNC.

RITWIK MUKHERJEE

A REQUEST FOR A SECOND APPOINTMENT with Tata Steel Managing Director B. Muthuraman in less than 24 hours for the same story raised many an eyebrow at the Tata Steel's home base in Jamshedpur. More so as the second day, according to the MD's secretariat, happened to be an exceptionally busy one for Muthuraman. But the meeting did take place, albeit one-and-a-half hours behind schedule. When he finally came out of his sprawling first-floor chamber after a series of parleys, some people, including a few vice presidents, were still milling around. "Did I call you or do you want to see me?" he asks quizzically. Either way, he finishes off with them in five minutes

flat. It is already 6.30 p.m. and he has another meeting lined up at 7 p.m. However, Muthuraman himself doesn't find anything unusual with his day's schedule. It's pretty much par for the course for the man at the helm of the Rs 16,053-crore Tis Group, the subgroup within the Rs 80,100-crore Tata empire, comprising its steel flagship Tata Steel, and its subsidiaries and associates. The man clearly has his plate full. His company is implementing a 10-year, Rs 1,03,500 crore expansion programme that will take Tata Steel's annual capacity from 7 million tonnes (MT) now to 25 MT by 2015 and transform the company from a relatively small Indian one with a marginal foreign presence to a global behemoth having footprints in at least seven countries, including Bangladesh, Iran,



PHOTOGRAPHS BY SHAMIK BANERJEE

Man of steel: Managing Director Muthuraman has changed the company from a small Indian player to a global behemoth

BT SPECIAL PERFORMANCE TRANSFORMATION

China and some other South-East Asian countries.

"When you are inspired by some great purpose, some extraordinary project, all your thoughts break their bands—your mind transcends limitations, your consciousness expands in every direction and you find yourself in a new, great and wonderful world. Dormant forces, faculties and talents come alive and you discover yourself to be a greater person by far than you ever dreamt," he says, quoting ancient Indian guru Patanjali. The sentence, incidentally, is inscribed on a plaque on his table. And that is the message—and the inspiration—that he wants every Tata Steel employee, from his colleagues on the company's board to the blue-collar worker on the shop floor, to inculcate and internalise.

But he's also realistic enough to factor in the possibility of failure in his calculus. There's a second plaque on his desk, this time quoting basketball star Michael Jordan, which says: "I have missed more than 9,000 shots in my career. I have lost almost 300 games. On 26 occasions I have been entrusted to take the game winning shots... and I have missed. I have failed over and over and over again in my life. And that's precisely why I succeed."

Muthuraman is confident that Tata Steel will successfully transform itself into a truly global company with regard to four Ps—process, people, purpose and performance. "The 45,000 employees of Tata Steel will make it happen because we have given

them the freedom to fail," he says with a flourish.

N.K. Sharan, Chief, Business Excellence Corporate Quality, though, has some worries. "When you are consistently performing well, there is a danger. Doing well often breeds arrogance and complacency," he says, adding, however, that "we have developed systems that send out early signals of any impending crisis; this enables us to fix most problems before they go out of hand".

Avneesh Gupta, Chief, Aspire (an integrated management tool created specifically to achieve Tata Steel's transformation goals) goes a step further and says any aberration, abnormality or problems in processes and performance is detected and rectified through a mechanism called "Heinrich Triangle". Aspire is a specially designed programme. It's an upgraded and customised version of conventional tools like TQI, TPM, Six Sigma Tests, etc. to bring in and ensure overall performance improvement. The Heinrich Triangle is a pyramid-like structure—on the top there is the problem, which is fatal, then comes major problems, followed by minor problems and abnormalities. These problems are detected and rectified at the concerned layers. There are part-time and full-time change agents called Black Belts and Master Black Belts. These are employees who patrol various layers of the hierarchical pyramid (the Heinrich Triangle) and suggest pre-emptive and reactive measures to sort out these problems. "Any

THE DESIRED TRANSFORMATION

- To make 'change' with regard to the 4 Ps (Process, People, Purpose and Performance) fundamental
- To ensure that the changes take root in the company and stick over time
- To communicate better and make each employee feel that there is a need to change
- Organisational energy should be at a very high level
- To learn to set newer and higher targets after reaching earlier goal

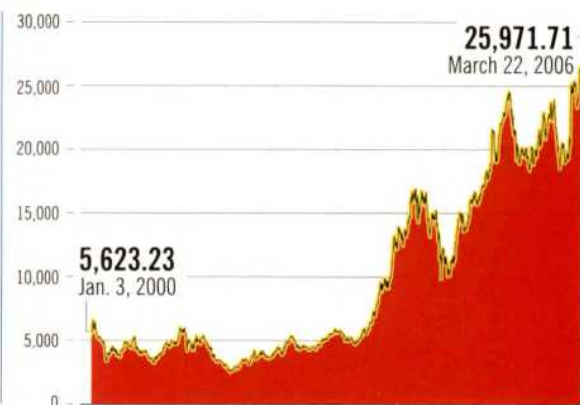
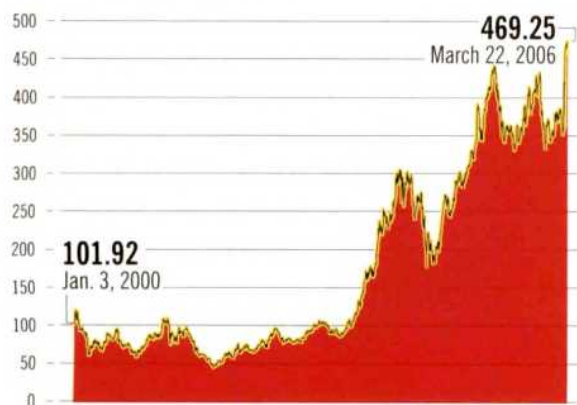
THE CHAPTERS OF THE CHANGE STORY

- Reducing energy costs by using latest technology and optimising its utilisation
- Addressing overstaffing by introducing rightsizing
- Winning over unions through fairness and firmness
- Creating a new performance culture and spreading it across the ranks
- Becoming and continuing as an EVA (economic value-added) positive company, irrespective of the Indian or global steel price cycle

THE KEY INITIATIVES

- Introduction of TPM (Total Productivity Management) Philosophy (Late 90s)
- Six Sigma Tests (2000)
- Vision 2007 (2002)
- Aspire, an integrated vehicle to deliver on the overall transformation theme (2003)
- Tata Business Excellence Model
- Aspire Unlimited, to integrate the improvement and transformation into its overall performance (2005)

STEELING UP



GRAPHICS BY PINAKI PAUL

blockage or bottleneck is usually with regard to the thought process; not the implementation,” says Gupta, meaning that it’s difficult to generate new ideas and it takes time before a new idea is accepted by people down the line, but once an idea goes down well, then there is no difficulty in implementing them.

As Muthuraman, and every member of his core team, repeat several times, any move to transform oneself must be preceded by the aspiration to improve. The actual journey towards transformation begins

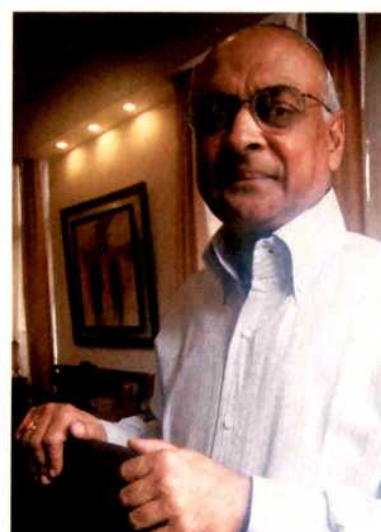
with the setting of a target. This has to be followed by the mustering of resources (both human and material) required to achieve the set goals and then comes the achievement of goals themselves. The target, once achieved, becomes the new platform from which to set higher goals; and the process continues. “That’s how the transformation story keeps ticking,” says Gupta. In Jamshedpur, Tata Steel’s manufacturing hub, one finds billboard screaming “Aspire Unlimited”, as part of the company’s drive to integrate the improvement and transformation programme into the matrix



Aspire chief Gupta: Hoping to create new ideas and implement them



Deputy MD Mukherjee: On a never-ending search for higher standards



Deputy MD (Corporate Services) Singh: Adopting the right perspective

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of its overall performance.

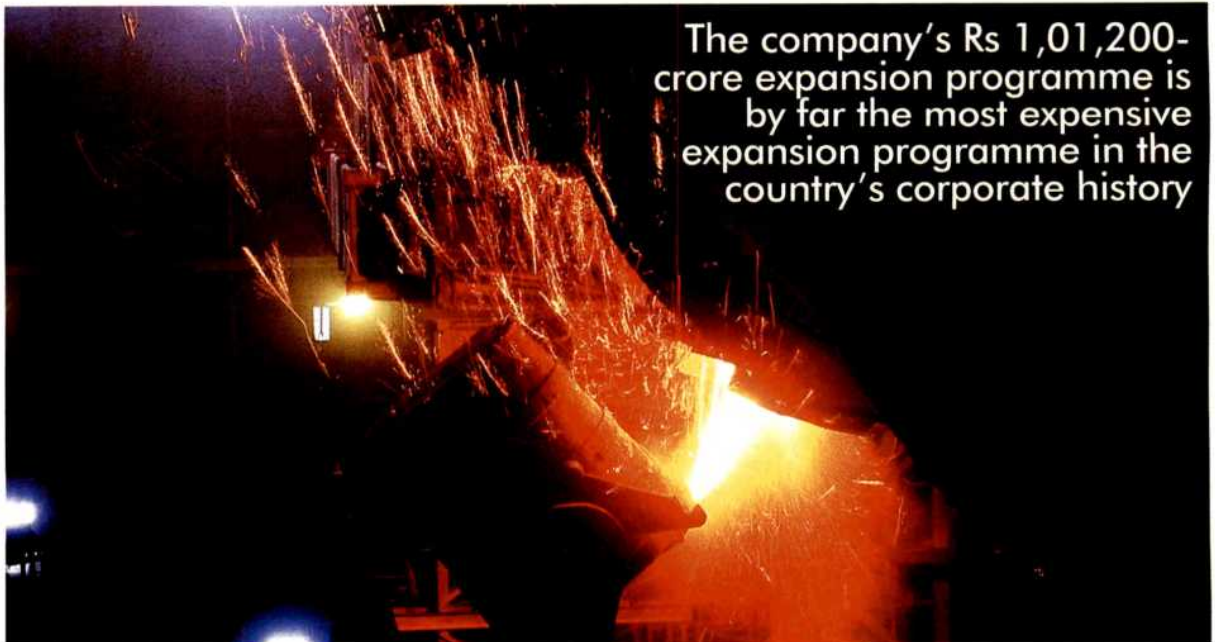
According to Muthuraman, 1992 was when Tata Steel started setting its fundamentals right. It began a new journey of improvement and transformation—mainly to reduce costs and upgrade quality—around that time. Tata Steel Deputy MD T. Mukherjee divides this journey so far into several phases:

- Setting the targets—to become the lowest cost steel producer in the world by improving efficiency levels at every stage of the production chain—and making everyone accept those;
- Benchmarking standards against globally accepted parameters (“You can copy some of them; there are also some you cannot; so you have to innovate,” says Mukherjee);
- Identification of the enablers;
- Rightsizing manpower;
- Getting rid of archaic technology and taking up a phased modernisation programme;
- Appointment of international technology consultants like Thyssen;
- Turning management consultant Arthur D. Little’s ugly and unflattering report on the company into an opportunity for change;
- Setting newer targets and getting people in tune with these targets; and
- Getting into high-end products through exploitation

and application of the knowledge already acquired.

The Tata Steel brass knows only too well that in today’s environment, incremental year-on-year improvements are not enough to remain competitive over time. “What keeps us moving are two basic instincts—fear and greed (in the positive sense of the terms)—a sense of pride and a never-ending search for higher standards,” says Mukherjee.

A.N. Singh, Deputy MD (Corporate Services), adds another angle to the transformation story: the art of communication. “You cannot enhance the skill sets of the employees down the line unless the change themes are communicated to them in the right perspective,” Singh says, recalling that there was a great degree of uncertainty and discomfort among employees when Tata Steel’s civic services department was spun off into a new company, Jamshedpur Utility Services Company (JUSCO), mainly due to the lack of proper communication. “We could overcome these problems only through communication. Speaking out is very important. And it has to be a two-way traffic. Mind you, you can never over-communicate,” says Singh. The company now has various fora like Joint Departmental Council to communicate various change themes internally and receive employees’ feedback on those. The ‘Aspire Unlimited’ billboards are part of this process.



The company’s Rs 1,01,200-crore expansion programme is by far the most expensive expansion programme in the country’s corporate history



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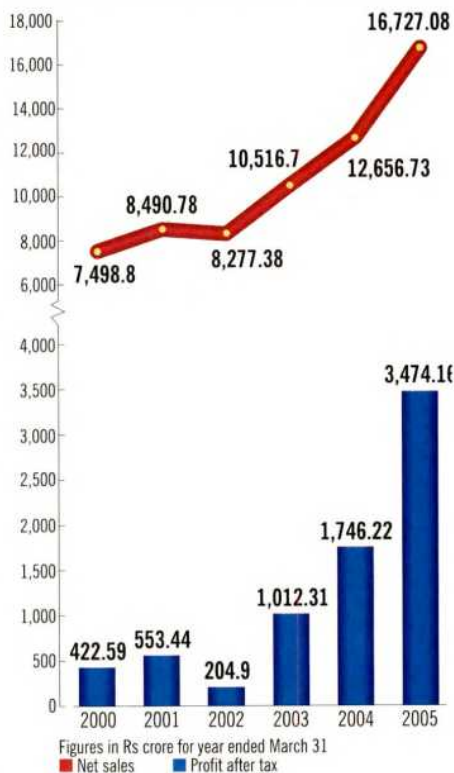
The secret of style.

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Singh feels that the process of unlocking and unleashing Tata Steel's captive knowledge, gained over the years, has just begun. "As the process gathers momentum, the four Ps (process, people, purpose and performance) are also transformed. It is a continuous, self-replicating process that is alternatively both cause and effect," he explains.

Moving up the knowledge ladder is an imperative, not a luxury. Tata Steel has undertaken a Rs 1,03,500-crore expansion programme that will take its capacity from 7 million tonnes now (this includes NatSteel's two-MT capacity) to 25 MT by 2015. That is, by far, the most expensive expansion programme in India's corporate history, and includes plans for upgrading the company's existing steel plants, setting up new plants in Orissa and Chhattisgarh, and for setting up or acquiring steel

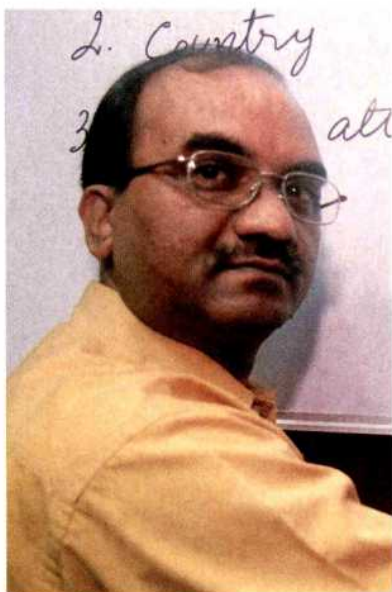
A METALLIC SHOW



units in Iran, Bangladesh, China and other Asian countries.

These plans have to be seen in the perspective of the Indian steel sector's place within the overall global steel scenario. Curiously, Tata Steel's expansion plans coincide with Posco's proposed investment of \$12 billion (Rs 54,000 crore) in a 12-MT-per-annum steel plant in Orissa and Mittal Steel's \$9.3-billion (Rs 41,850-crore) plans for a similar sized one in Chhattisgarh.

India's per capita consumption of steel is expected to move up from the current level of 30 kg to nearly 250 kg in 25 years and 300-400 kg by 2050. In absolute terms, this means domestic steel consumption will rise from 40 MT now to 250 MT in 2030 and 500 MT by 2050. Global steel demand during this period will also increase phenomenally from 1 billion



Chief (Strategic Planning & Finance) Misra: Creating better value



VP (Raw Materials) Baijal: Planning to tap the global market



Chief (Excellence & Quality) Sharan: Fixing problems beforehand

BUSINESS

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*Source: Business India October 24, 2005 Issue.



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tonnes now at a rate of 8-10 per cent each year for the next 15-20 years. This growth rate is expected to be maintained at least till 2050.

Be he, A.D. Baijal, Vice President (Raw Materials), Varun Jha, Vice President (Chhattisgarh Project) or P. Sengupta, Principal Executive Officer—in fact, everybody at Tata Steel now talks about these figures because, eventually, its strategy to tap this burgeoning market is what will make it a truly global company.

Says N.K. Misra, Chief, Strategic Planning & Finance: “There are two pillars of our transformation strategy—why steel of all industries is a value creating one (because once you understand that, you tend to understand how it creates value and once you understand that it becomes easier to draw up the transformation strategy, he says) And, is Tata Steel in a position to create value, or at least, better value than its competitor?”

Tata Steel is expected to generate surplus and stable cash flows over the next four-five years. Compared to the alternative of returning the surplus cash flows to shareholders, Tata Steel’s growth options are expected to create a higher long-term sustainable value. Elaborating on this theme, he says Tata Steel has a globally competitive business model. There is room for growth—both domestic and overseas. The trends in steel will favour stronger and

bigger companies and the trends also point to improving industry structure, which can be leveraged to yield better returns. And unless we grow our existing business significantly and consistently over time, the company will become vulnerable compared to its global peers,” Misra says.

Tata Steel’s competitive advantage lies in the fact that it has ownership over most of its raw material sources and that its primary steel production facility is close to its raw material source while operations like NatSteel are located in geographies that generate huge demand. “We are extremely bullish about the industry we are in; and this explains the rigorous transformation programme we’re undertaking,” he says.

This bullishness is obviously shared by lots of people outside the company. Even while we were interviewing Muthuraman for the second time in two days came the news that Standard & Poor’s had upgraded Tata Steel’s foreign currency ratings from BB+ to BBB with stable outlook, taking Tata Steel’s rating up two notches above India’s sovereign rating. This will enable the company access global funds for executing its various growth projects in a much easier and cheaper manner. “Nothing could have been as distressing and as refreshing as this,” the Tata Steel MD beams, as he leaves for his dinner meeting.



Where it all began: In Jamshedpur, Tata Steel's manufacturing hub

FIVE THINGS THAT CAN GO WRONG

- The whole exercise may, at times, go haywire since a large part of it deals with people/human beings
- Doing well brings in arrogance and complacency among people
- Too much of regimentation may lead to a higher level of attrition
- Attempt to bring in too many/ drastic changes at a time may send wrong signal/may be misunderstood unless backed by sound communication strategy
- Continuity of leadership

INTERVIEW B. MUTHURAMAN/ MD/ TATA STEEL

"Continuous improvement is the lifeline of the company"



TATA STEEL MANAGING DIRECTOR B. Muthuraman spoke to Business Today's Ritwik Mukherjee on the transformation programme still underway at the steel major. Excerpts:

What was the 'case for change' in your organisation?

By 1991, Tata Steel was a 'dead' company. To my mind, long years of governmental and administrative controls over integrated steel plants had resulted in a technologically outdated plant; then machinery was in a poor condition due to insufficient cash for proper maintenance. And to add to our worries, there was very little market and customer orientation. The size of the operation was small and there was a general lack of business acumen and direction as well. At that point of time we appointed Arthur D. Little as our consultant. It told us we were not ready to face the liberalised era unless we made drastic and urgent changes. I think that the 'case for change' could not have been more compelling.

What was the aspiration for the change you wanted to achieve? Have your aspirations changed at any stage since the outset? How and why?

When we appointed Arthur D. Little, our first goal was to scale up our abilities and earn the right to survive. This is, obviously, the first aspiration of anyone about to die, and we were no different. Aspirations do change over time, depending on the circumstances. In

BT SPECIAL PERFORMANCE TRANSFORMATION

our case also, it has changed. Today, our aspirations are different from what they were in 1991-92, when we were intent only on survival. We now aspire for rapid growth and internationalisation of both our minds and the company.

Could you briefly elaborate on the nature of the transformation programme underway.

Once the Arthur D. Little report was in hand, that was in 1992, we started setting our fundamentals right. We undertook several improvement initiatives: cost reduction projects, quality improvement projects through quality circles and annual quality improvement programmes, a programme called TOP (Total Operating Performance) with the help of another consultant—McKinsey—Total Quality Management (TQM) and many other projects, all of which involved several employees. There was intense two-way communication between the management and the employees with regard to the external environment and the urgent need to change. Our employees' unions and all our employees were intensely involved in this entire process of change. They realised that if we didn't change, we would perish. Another rude awakening came around the same time (early 90s) when Ratan Tata and J.J. Irani went to international investors to raise \$100 million. Potential investors, while acknowledging that TISCO (now Tata Steel) was a good company, were unhappy that staffing in

the company was way beyond international norms. Their simple question to Mr Tata and Mr Irani was: "Please tell us what business you have keeping 78,000 people on your rolls?" Till then the company, which was doing reasonably well, had kept on adding people. That's because labour was supposed to be cheap. It was a matter of generosity and of being good employment generators for the region. This rude awakening prompted the company's top brass to resolve to do something about it. As a result, we

reduced manpower from 78,000 in 1992 to about 45,000 by 2000 through a programme that is unique in the industry—it was wholeheartedly supported by the union. Mind you, the implementation of the decision to reduce manpower significantly required boldness and courage. More so as Tata Steel was considered to be the country's most respected organisation in terms of welfare measures and equal employment opportunities. We had to keep that in mind. The decision to reduce employee count was not without hiccups. The sincerity and commitment of the top management is what resulted in its successful implementation, despite many difficulties. Untiring communication was also a key. Earlier the paradigm was: "Lifetime employment". Now it is "We may not be able to provide lifetime employment, but Tata Steel will provide good future employability (through continuous re-skilling) to its employees. The right-sizing exercise was helped by the fact that we



"We may not be able to provide lifetime employment, but Tata Steel will provide good future employability through continuous re-skilling"

outsourced a lot of non-core activities. We are happy that we could do it successfully. Through all these efforts, we became one of the lowest cost steel companies in the world by 1998. Then we set ourselves new goals. We aspired to become an EVA (economic value-added)

positive company and we did so by 2001. We are now aspiring to become a 25-million-tonne steel company by 2015 with a respectable global presence, and we believe we are on our way. We continue to have transformational initiatives both in the manufacturing and customer satisfaction areas. Initiatives like the Customer Value Management, Retail Value Management and Aspire Unlimited, using the "Theory of Constraints" are, I believe, unique in the steel industry.

As you look to transform leadership in Tata Steel, what changes have you made in your style for others to see? What influences you to adopt this style? And is this style working well for you?

Tata Steel has had very good leaders. The situation through 1992 to 2000 called for a certain type of leadership and I believe we had just that. I have not made any particular change in my leadership style, which is very consensual and very empowering; I give freedom to people to experiment and demonstrate their ability. Tata Steel's strength is in its people and if you empower them, encourage them, energise them and enable them to envision their future, they produce extraordinary performances. This is what they are doing now.

Do you see a gap in the leadership capacity over the next five-10 years? Are you leveraging the transformation to address this gap? How did you overcome blockers, if any?

I see several leaders in Tata Steel. It has always been the case. I believe Tata Steel has the ambience and the processes for good leadership development.

As part of the transformation effort, has your leadership team changed the way it works or behaves in any way during this period?

There is, indeed, a change in the way the leadership

"Our strength is in people and if you empower them, encourage them, energise them and enable them to envision their future, they give extraordinary results"

team is working and behaving. There is more openness, more transparency, there is more knowledge sharing and there is more teaching and coaching.

What are the key attributes that you would like to see in your future leaders?

I would like the future leaders of Tata Steel to have strong people development skills and have a combination of visionary and architectural skills. I would also like to see humility and fierce resolve to succeed against all odds. But I must add here that different leadership traits are required under different situations.

What initiatives have you taken to ensure the change sticks over time? Please elucidate.

Over the last 15 years, in the course of our various improvement initiatives, the employees of Tata Steel have imbibed a culture of continuous improvement and the trait of questioning the unquestionable. At every opportunity, at every communication, we stress the need to aim high, to stretch ourselves, to set ourselves stiff targets. 'Continuous improvement' is the lifeline of the company. We do a lot to preserve this culture and we will continue to do so with fanatical zeal. It is often considered difficult to change the culture in a company with 100 years of history behind it, because it gets entrenched with the passage of time. We, at Tata Steel, attempted cultural transformation by bringing in a new culture in a very innovative way. At the time of conceiving the Cold Rolling Mill in Jamshedpur, the management thought it appropriate to begin the process of cultural transformation of the company from there. This was like a nursery where a new culture was being created.

How much of your change programme focuses on immediate performance improvement initiatives versus long-term shifts in the underlying 'health of the organisation'? How do you decide on your priorities?

The change programme of the 90s focussed primarily on immediate performance improvements. That was the need of the day. Today, we are focussing more and more on strategic initiatives, but keep a good balance between short-term and long-term needs. ■

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RANBAXY

A VISIONARY COMPANY

Ranbaxy succeeded by anticipating change and preparing for it, even if it meant adopting measures that weren't properly understood at the time they were taken.

A BT REPORT

THE STORY BEGAN IN THE EARLY 1950S. Two gentlemen, Ranjit Singh and Gurbax Singh, set up a pharmaceuticals distribution company called Ranbaxy (the company's name was a fusion of their first names). They were both former employees of A. Shionogi, a Japanese pharmaceuticals company, and had borrowed money from Bhai Mohan Singh, a young Delhi-based businessman whose family's main business interests were in construction (it was a big contractor for the Indian Army then). The then Ranbaxy promoters could not pay back the debt; so Bhai Mohan was roped into the firm as a partner; and, subsequently, took it over from the original owners in 1952. The rest is history. From that beginning as a small medical distributor five decades ago, Ranbaxy has emerged as the world's eighth largest generics drug

company, and India's first billion-dollar pharma major, with a presence in more than 100 countries.

The next twist in its tale came nine years later, when Ranbaxy registered itself as a private limited company in 1961 and kicked off its manufacturing operations a year later in collaboration with Lapetit Spa, an Italian pharmaceuticals company. Its first drug: Chloramphenicol, an antibiotic used to treat severe bacterial infections and typhoid. "We were selling medicines made by others. That's when we thought of making medicines ourselves," the octogenarian Bhai Mohan, who is leading a retired life in his Delhi's Aurangzeb Road residence, told *BT* in a recent interview. He had little inkling then that this little step would change the face of the drug industry in the country, and lead to sleepless nights in corner offices in Big Pharma worldwide.

In 1969, Parvinder Singh, Bhai Mohan's eldest



PHOTOGRAPHS BY VIVAN MEHRA

Global outlook: Malvinder believes the company's growth hinges on internationalising its operations

BT SPECIAL PERFORMANCE TRANSFORMATION

son, joined the company after completing a PhD in Chemistry from the US. A year later, Parvinder got his biggest opportunity; it was also the biggest turning point in the fortunes of the Indian pharma sector. In 1970, the government amended the Indian Patents Act, 1930, to recognise only process patents; this meant companies could make any drug—even patented ones—so long as it followed a process different from the one used by the patent holder (the country has reverted to product patent regime from January 1, 2005). Ranbaxy reacted by investing in a new R&D wing and tied up with the Centre for

Scientific and Industrial Research (CSIR) for this purpose. Bhai Mohan, had, by this time, bought out Lapetit's stake in Ranbaxy and followed this up in 1969 with the launch of Calmpose, a blockbuster anti-depressant. The same year, the company posted a turnover of Rs 1 crore for the first time.

Parvinder had a bigger vision. He wasn't satisfied being a drug maker at the low end of the value chain; his goal: turn Ranbaxy into a research-oriented company, a very radical move by the standards of the times. He set about professionalising the management of the company. In 1977, he recruited



State-of-the-art: The manufacturing facility at Paonta Sahib in Himachal

THE DESIRED TRANSFORMATION

- Become a research-based international pharma company
- Become a \$2-billion (Rs 9,000-crore) company by 2007 and a \$5-billion (Rs 22,500-crore) one by 2012
- Innovation is the key. In the long-term, the company wants to have its own patented drugs or new chemical entities
- Become the fifth largest generics drug manufacturer in the world
- Develop human capital as one of the key growth drivers

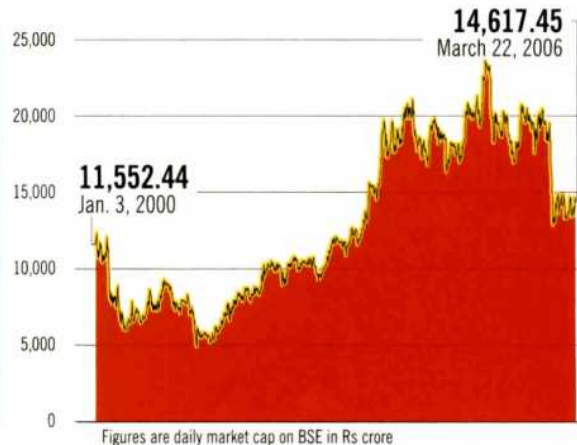
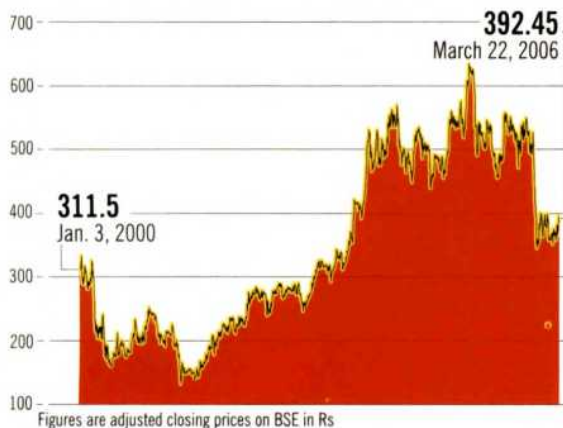
THE CHAPTERS OF THE CHANGE STORY

- Lay greater emphasis on research, focus only on the pharma business and expand global presence
- Expand rapidly in the US, Europe and BRIC countries
- Use the cash flow from generics to develop proprietary drugs
- Grow both organically and inorganically
- Have a structured approach to people development; address functional and leadership competencies

THE KEY INITIATIVES

- Exited its non-pharma businesses recently
- Expand global footprint; already present in 125 countries
- New anti-malaria formula in Phase II B clinical trials. Hopes to reach the market by 2009
- Raising of \$1.5 billion through a combination of ADRs, GDRs, and FCCBs and another \$1.5 billion through debt
- On an average, each employee received 4.3 man-days of training in 2004 against three the previous year

A HEALTHY SHOW



GRAPHICS BY PINAKI PAUL

Devinder Singh Brar, an MBA from Delhi's FMS. Brar, who later became CEO of the company and even succeeded Parvinder as CEO & MD following his untimely death in 1999, led Ranbaxy's global thrust; he took several key bets, including the one to enter the highly competitive US market in 1995.

J.M. Khanna, who joined in 1979, gave the company the research focus that Ranbaxy needed to move to the next level. This initiative paid off within 12 years: in 1991, Khanna and his team, after three years of research, developed a non-infringing process to manufacture Cefaclor, an oral antibiotic for which the US-based Eli Lilly held the patent till 1992. The US company was later forced to enter into a pact with Ranbaxy, which supplied Cefaclor (manufactured using a different manufacturing process) to Eli. It paid rich dividends for the Indian company. In 1992, Ranbaxy's sales were just Rs 334 crore; by 1995, it had more than doubled its sales to Rs 871 crore.

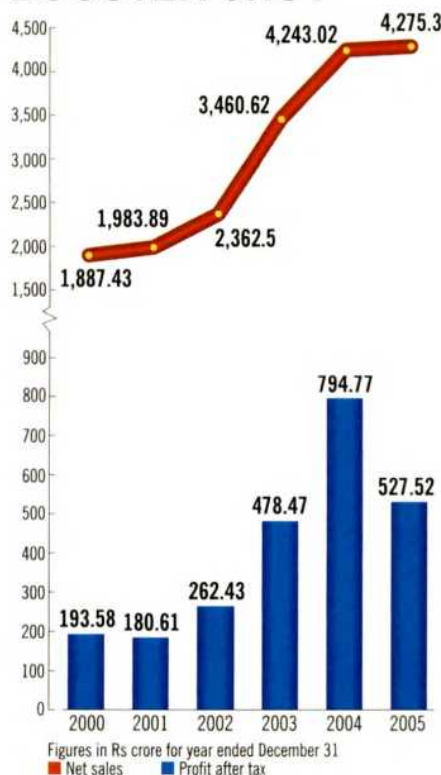
This was also around the time when Parvinder fell out with his father. The dispute finally led to a partition in the family's assets. Parvinder got Ranbaxy and some

other assets as part of the family settlement and became its Chairman and Managing Director in 1993. In the late 1980s, the company was focussed on exporting bulk drugs. In the early 1990s, after the success of Cephaclo, Ranbaxy shifted its focus to generics;

but even then, the goal was clear: it would get into proprietary drugs at a later stage. In 1993, Parvinder hired management consultant M.B. Athreya to chart out a vision for the company. Athreya set what seemed like a stiff target: sales of \$1 billion (Rs 3,100 crore then) by 2004 (it's another matter that Ranbaxy achieved the target ahead of time). Says Brian Tempest, Executive Vice Chairman, Ranbaxy: "The company's growth can be attributed to its ability to spot the right windows of opportunity. During the last 10-15 years, Ranbaxy has taken many strategic decisions, which appeared out of the box and unconventional at the time they were taken, but which later proved to be masterstrokes."

The other big step Parvinder took was to internationalise Ranbaxy's operations. "Even as far back as the late 80s and the

BOOSTER SHOT





Carrying on: Shivinder Mohan Singh, President (Pharma) & Executive Director, hopes to put on a better show in 2006

early 90s, Ranbaxy was acutely aware that 99 per cent of the pharmaceuticals market was outside India; therefore, internationalising the business made sense," says Tempest. Ranbaxy was the first company to have its own managers in various export markets way back in the 1980s. It had also set up subsidiaries in Nigeria, Malaysia and Thailand during that decade. The company now has 46 country managers, a majority of them non-Indians, and a presence in 125 countries. Tempest told *BT* in an earlier interview: "We see ourselves as a global pharma company and so, we try and build a human bridge around the world. We have to make sure that we have people, say, in the US (which contributes 40 per cent of our sales), who understand the Indian scenario and people in India who understand the US one." Interestingly, each country manager thinks like an entrepreneur and is free to do anything to develop the market under his control.

Despite these achievements, Ranbaxy, till a decade

ago, was essentially a global trader in pharmaceuticals goods. Parvinder, a scientist himself, realised that this had to change if his grand vision had to materialise. So, he gave Ranbaxy the much-needed research focus. In 1994, the company formulated its Vision 2004 plan: It wanted to become a research-based international pharmaceuticals company. This vision had three parts:

- It would not look at diversification into unrelated or even related areas and would stick to its core area of pharmaceuticals;
- It would be an international company, focussing on rapid expansion into foreign countries; and
- It would be a research-based company, which meant it would discover its own proprietary drugs. It would look at generics as an opportunity to make money and to expand, but eventually, the objective was to become a research-based company, with investment in innovative research. It also set a vision of becoming a billion-dollar company in 10 years, that

is by 2004. At that time, in 1994, the company had \$100 million (Rs 310 crore then) in revenues.

Ranbaxy adopted a multi-pronged approach to realise its vision. It has developed a strong generic pipeline, which ensures a steady cash flow. These cash flows finance the ambitious programme to develop its own molecules, or as the industry calls it, the new chemical entities (NCEs). Its generics strategy is driven by new drug delivery systems (NDDS), which involves developing new ways of drugs intake. For instance, Ranbaxy made history in 1999 when it developed a new way to deliver Bayer's Ciprofloxacin—it pioneered a once-a-day dosage against the original innovator's multiple doses a day—and sold the technology to Bayer for a neat \$65 million plus royalties on sales. "Ranbaxy's focus on the US generics market has worked well for it," says Tejas Doshi, Head (Research), Sushil Finance, a Mumbai-based brokerage firm.

Its generics research activity ensures a steady supply of drugs in the marketplace, and growing top-and bottom lines. It recorded (Rs 5,195.6 crore) revenues in 2005, exceeding the target of a billion dollars set 10 years ago. The company is now well on its track, Tempest claims, to become a \$2-billion (Rs 9,000-crore) entity by 2007 and a \$5-billion (Rs 22,500-crore) one by 2012. As it keeps up the momentum, Ranbaxy became one of the largest filers of ANDAs (abbreviated new drug applications) at the US FDA, a precursor to the launch of a generic molecule in the US. Last year alone, it filed 26 ANDAs in the US, the third highest number by a generics firm. Of a total of 146 filings it has made in the US till now, 96 have been approved and 50 are in the pipeline. To keep up the strong flow of filings, which will drive revenues in

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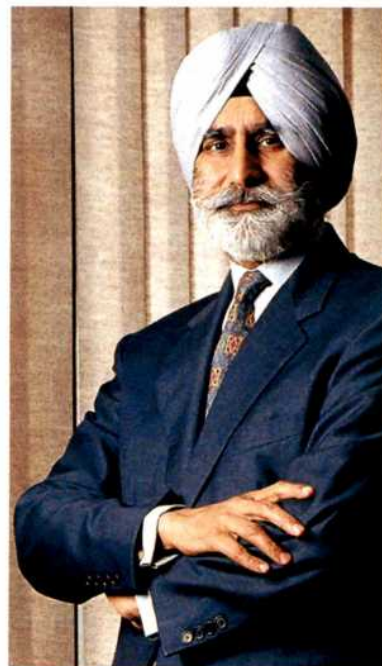
the coming years, the company plans to hike its research budget from 6 per cent of annual earnings currently (last year, it spent \$80 million, or Rs 360 crore, on R&D) to 10 per cent by 2007. And it's not particularly bothered that this surge in R&D expenses will shrink its profit margins in the short term.

For instance, the company saw a 90 per cent dip in its net profits in the third quarter ended September 30, 2005, to Rs 18.4 crore from Rs 200.4 crore during the same period the previous year—and it was mainly on account of a surge in R&D expenditure that coincided with a squeeze in margins in the US generics market. Says Malvinder Mohan Singh, President (Pharmaceuticals), Ranbaxy: "It's a short-term cyclical issue. On the back of a strong pipeline, the next year should be better. As for R&D, we incurred a huge fixed expenditure. Since this is a one-time expense, this year will be better."

Tempest and his team would not talk about the new drug discovery research (NDDR) programme



Ex-CEO Brar: Took Ranbaxy global and entered the US market



Ex-CMD Parvinder Singh: Gave a research focus to the company

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openly, except to say that about 50 per cent of its research budget goes to fund its NDDR. As of now, it has made some headway in three NCEs—related to asthma, urology and malaria—which are at various stages of development or clinical trials. There are another seven, which are also in the development pipeline. However, its malaria NCE is in phase-II clinical trials and has delivered good results. The molecule is targeted mainly at the underdeveloped and travellers markets, which is valued at \$400 million (Rs 1,800 crore) a year. But the idea is to get a hang of the NDD programme and go through the grind of various stages of discovery like identifying the compound, the early and late stages of development, the clinical trials and then win the approvals of regulatory authorities in various countries. “Basic research is fraught with uncertainties and the odds are very high,” adds Doshi.

It's a high-risk business. Globally, it takes about \$1.5 billion (Rs 6,750 crore) just to develop a new drug and launch it. Ranbaxy recently learned that the

hard way. In 2002, it had out-licensed an NCE—codenamed RBx 2258 (for treating the enlargement of the prostate gland found in people above 50 years)—to Germany's Schwarz Pharma for further development and clinical trials. This way it wouldn't have to bear the entire risk. But Schwarz recently abandoned the entire exercise at a late stage of the phase-II clinical trials, citing lack of desired results

measured in terms of safety, efficacy and superiority. If the research had been successful, Ranbaxy and Schwarz could have had a run of the worldwide market for the drug worth \$2.2 billion (Rs 9,900 crore). But that's part of the game. Only one out of 10 new molecules finally hit the market suc-

cessfully; and the number of NCEs being rolled out is coming down. So, it doesn't take a Nobel Laureate to figure out that Ranbaxy won't become a Pfizer or an Eli Lilly anytime soon. But that's only a long-term goal; in the nearer term, by 2012, it is hoping to become the fifth largest generics company in the world. And given its track record, that looks achievable.

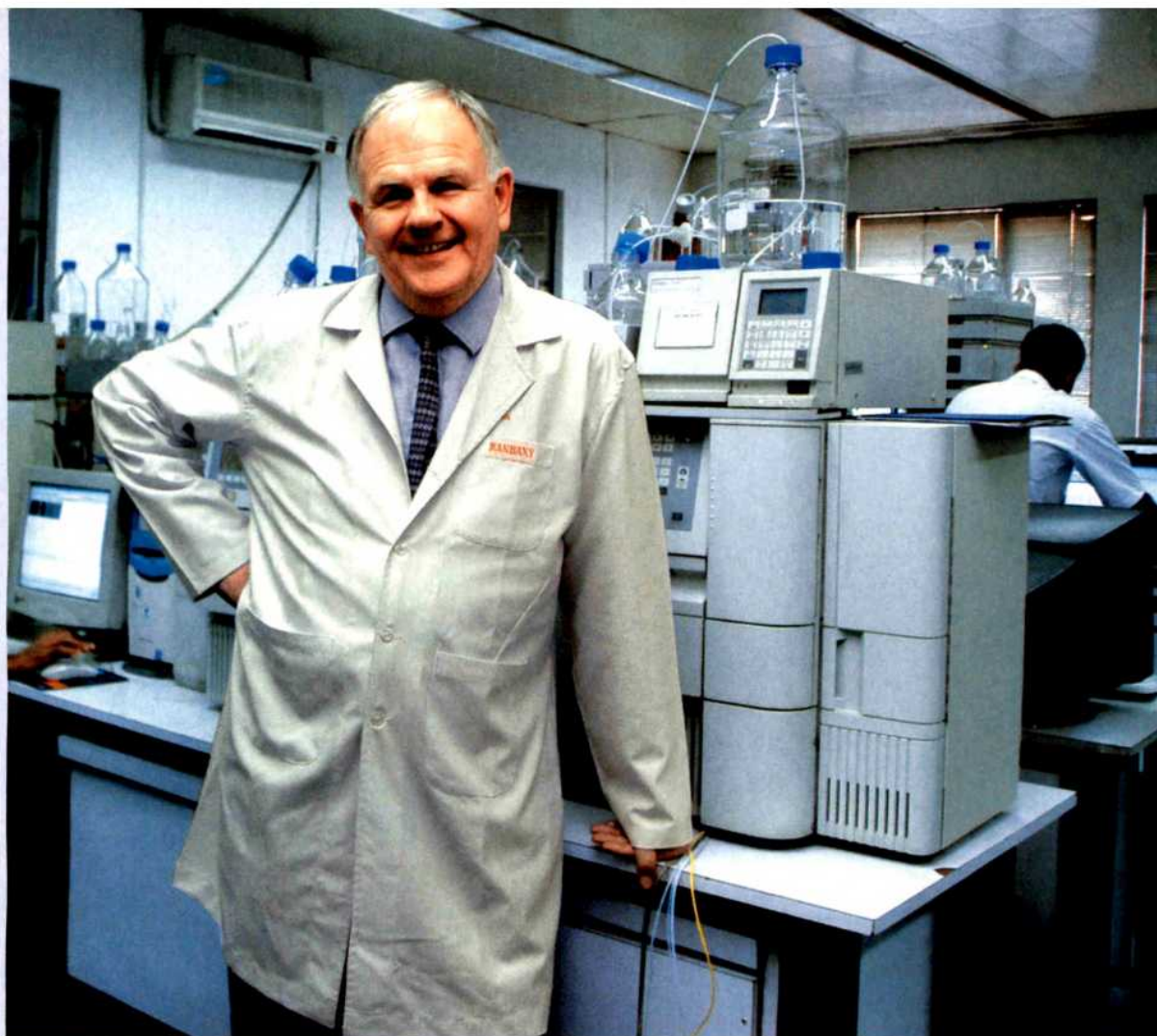
Ranbaxy recorded \$1.2 billion in revenues in 2004, exceeding the target set 10 years ago. It is now on track to become a \$2-billion company by 2007 and a \$5-billion one by 2012



R&D it is: Nearly 50 per cent of Ranbaxy's budget goes to fund new drugs

FIVE THINGS THAT CAN GO WRONG

- Increased competition in the US generics market will affect cash flows as it's doing now
- Policy of challenging patents is risky and expensive, though very rewarding if the court's decision goes in its favour
- Investing in R&D is important for growth, but can be damaging if it does not deliver desired results
- Product patents may affect its ability to churn out new drugs and, in the long run, affect its market share
- Any slowdown in filings in the US FDA will affect its product flow and future earnings



INTERVIEW BRIAN TEMPEST/ CHIEF MENTOR & EXECUTIVE V-C/ RANBAXY

"You can't proceed without a consensus"

RANBAXY CEO & MD BRIAN TEMPEST SPOKE TO *BUSINESS TODAY's on the transformation programme still underway at the pharma major. Excerpts:*

What were/was the big decision(s) that changed the course of history for Ranbaxy?

The company's growth can be attributed to its ability to spot the right windows of opportunity. During the last 10-15 years, Ranbaxy has taken many strategic decisions which would have appeared out of the box and unconventional when they were taken. Even as far back as the late

80s and the early 90s, Ranbaxy was acutely aware that 99 per cent of the pharmaceuticals market was outside India and realised then that internationalising the business made sense. In 1993-94, it embarked on internationalising its operations. Ranbaxy has always believed that without emphasis on research, innova-

"Ranbaxy has always believed that without emphasis on research, innovation and technology, we would not be able to survive and grow in the future"

tion and technology, we would not be able to survive and grow in the future. Today, the company is recognised as a leader in the Indian market and also ranks among the top 10 generic players in the world. Some of the significant turning points in our journey have been:

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- The enunciation of the Mission and Vision Statements in 1993;
- Restructuring the international operations into four regions;
- Laying strong emphasis on R&D, leading to big investments in drug discovery in 1994-95; and
- Identifying the US and Europe as major markets and establishing significant ground presence and network in these markets.

In the early 1980s, Ranbaxy was a bulk drugs player. In the 1990s, especially after the success of Cefaclor, it began to focus on generics. Please discuss this change in focus. In the early 80s, there were few Indian companies with an international outlook and the domestic market was very profitable. Ranbaxy manufactured both bulk drugs and formulations and wanted to adopt a model of backward integration that would allow it to maximise the economies of scale. Even at that time, Ranbaxy felt the need to take the business global, since almost 99 per cent of the pharmaceuticals market was outside India. This led to a massive export thrust in the 80s. In the early 90s, we strongly felt that in order to have a truly global image and also to fight competition in the Indian market—which was opening up—it was time to test the company's mettle in the major overseas pharmaceuticals markets. This was one of the major reasons why Ranbaxy decided, in 1993-1994, to massively internationalise its operations. It was a capital intensive and high-risk exercise, but the team at Ranbaxy was confident and determined to succeed. Today, we are considered amongst the best in class companies, globally. While the emphasis and focus of research is primarily on generics; this is both more predictable and less risky (being the resource generator for innovation activities). But as we move forward, we will increasingly look towards building a strong proprietary business.

As a company, when did you actually set goals and aspirations? Have your aspirations changed at any stage since the outset? How and why?

In early 2002, Ranbaxy embarked upon a 'visioning' exercise for the year 2012 knowing fully well that its Vision 2004 (to

become a \$1 billion, or Rs 4,500-crore, company) was on course. McKinsey & Co. helped us in this exercise. A cross-functional team of 40 top Ranbaxy managers and some experts from McKinsey held an intensive three-day brain-storming session at the beautiful locale of Ananda (in the Himalayas); after a thorough analysis, extensive debates and a series of presentations, the group finally articulated its Vision & Aspirations 2012 document. Our Vision 2012 is to achieve significant business in proprietary prescription products by 2012 with a strong presence in developed markets. Our Aspirations 2012 are to be a \$5-billion (Rs 22,500 crore at current exchange rates) company, to achieve significant revenues from proprietary prescription products, and to become a top five Global generics player by 2012. The Vision and Aspirations have not changed thereafter and we are well on course towards achieving them.

Did you encounter any resistance at the start of this journey? If yes, how did you convert this into positive energy?

In embarking on any such major exercise, views and counter views are welcome and essential. Ultimately, the group goes forward only on reaching a consensus. You can't proceed without a consensus.

Are you satisfied with the current pace of growth? Have you consciously set a tempo, and if so, what mechanisms do you use? Do you try to moderate the pace at any stage? We achieved our target of becoming a \$1-billion (Rs 4,500 crore) company by 2004. We are on course to hitting our 2007 target of becoming a \$2-billion (Rs 9,000 crore at current exchange rates) company. And as mentioned before, our Vision 2012 talks of achieving a turnover of \$5 billion (Rs 22,500 crore) by that year.

What has your been your learning so far? What do you believe could have been done better?

"The emphasis and focus of research is primarily on generics, but as we move forward, we will increasingly look towards building a strong proprietary business"

The Indian market is one of the most aggressive in the world and competition here is very intense. Ranbaxy is an even more exciting place to be in as it is leading the aggression and is among the market leaders.



The pharma business is people-oriented. Has the organisation laid emphasis on building an individual's capabilities? Do you believe you have the necessary role models? How are you building this pool?

Human capital is one of the key growth drivers in this business. Ranbaxy has a strong multicultural staff of around 9,000 people, including a formidable team of 1,100 in R&D; of these, around 150 scientific personnel have joined recently. In R&D alone, Ranbaxy recruited 22 people in 2003 and another 30 in 2004 from the US and Europe to help strengthen and enrich its multicultural R&D department. A structured approach to people development was undertaken through regional training initiatives in 2004. Programmes addressing functional and leadership competencies were developed and conducted. On an average, each Ranbaxy employee received 4.3 man-days of training in 2004 against three man-days the previous year. We are keen to bring in an assessment centre (HR consultants) from Europe to see how our management stacks up against global companies. In fact, around 80

"The company has a strong multicultural staff of around 9,000 people, including a formidable team of 1,100 in R&D; around 150 scientific people have joined recently"

senior managers have participated in these assessment initiatives through the King & Kelly programmes.

What initiatives have you taken to ensure "that change sticks over time"? Please elucidate.

Change can be good; we, see it as an opportunity to further strengthen the team and bring in fresh thinking; it also gives space for growth opportunities internally. What's important is to get a stronger person than the predecessor; the Ranbaxy team of today is stronger than the previous one and the Ranbaxy team of tomorrow will be stronger than the present one.

How much of your change programme focuses on immediate performance improvement initiatives versus longer-term shifts in the underlying 'health' of the organisation? How do you decide what to prioritise?

R&D is naturally a long-term investment and improves the health of the company. This is complementary to operational issues that determine performance. ■

INFOSYS **SETTING NEW BENCHMARKS**

Infosys has a structured system to manage all the change-related issues.

VENKATESHA BABU

IN EVERY INDUSTRY, THERE ARE SOME PLAYERS, which are able to register higher growth, squeeze out greater profits and attract and retain star performers better than others. Globally, names like GE, Wal-Mart, Toyota and Dell come to mind when discussing such companies. At some point of their existence, they would have faced competition from companies with similar antecedents and growth opportunities. But, they managed to move ahead of the pack by addressing the needs of the present while preparing for the future.

What, then, separates a winner from the losers? The ability to dream big, having a robust business model and having a leadership with the vision and ability to execute difficult decisions are only some of the ingredients for success. One Indian company that has demonstrated this ability over

the last decade is Infosys. The numbers tell the story; Infosys was a Rs 509-crore company as recently as 1999 with a PAT of Rs 133 crore and around 3,000 employees. Players such as Microland and Intelligroup were larger then. Cut to the present. These companies are pale shadows of their former glorious selves; Infosys, on the other hand, will close this year with revenues of around Rs 8,500 crore, a net profit of Rs 2,200 crore and nearly 50,000 employees. Why did it succeed when most of its peers failed? The answer: the ability to scale up operations and a relentless focus on raising the bar every day. Its success is not based on a single big bang decision that sets it apart; it is based on getting the small things right. Each time. Every time.

At Infosys, the planning for the year ahead typically starts in July-August. A team headed by



PHOTOGRAPHS BY DEEPAK G. PAWAR

The core team: (Clockwise) N.R. Narayana Murthy (seated), Nandan Nilekani, S. Gopalakrishnan, T.V. Mohandas Pai

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an Assistant Vice President, who is also the Head of Corporate Planning, takes in inputs from across and outside the company. This is then used to outline a plan for one-, three- and five-year horizons. Typically, the one-year plan addresses the immediate business environment and uses quantitative operations planning to enhance supply chain efficiency. The three-year plan is more nuanced and looks at opportunities and threats that may arise over the medium term. The five-year plan is

all about blue-sky thinking and an integrated change management programme (called Infy+, for strategy implementation).

By October, the top management and the Tier I leadership (around 300 executives) get together to look at the issues highlighted by the planning department. Finally, 5-8 themes are frozen for the one-year plan. Sanjay Purohit, AVP and Head of Corporate Planning, Infosys, says each theme is broken into manageable pieces and an execution



Think Pad: Software giant's Bangalore office

THE DESIRED TRANSFORMATION

- Become a large global organisation, demonstrating consistent performance and profitability
- Create customer and employee value at every point of the value chain
- Sustain excellence in execution through training and skill upgrade programmes
- Be an end-to-end business transformation player
- Attract, manage and retain best in class workforce with strong performance ethics

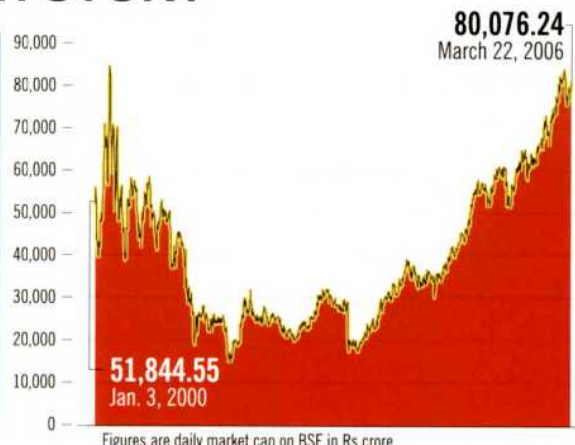
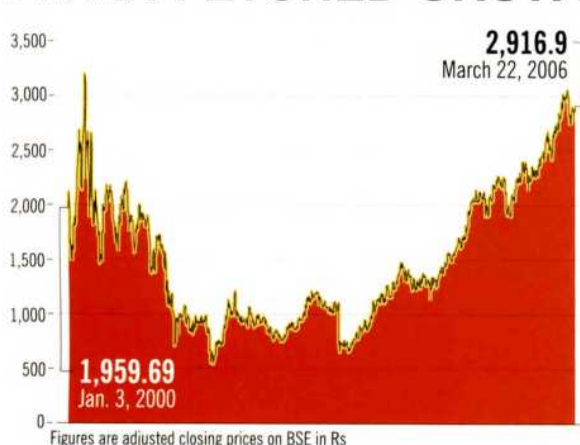
THE CHAPTERS OF THE CHANGE STORY

- Provide more value to customer by leveraging GDM model to define a distinctive experience
- Become a trusted advisor to clients
- Solve business problems to customers rather than just providing a technical solution
- Enhance GDM and develop new ways of delivering services
- Work on potential supply constraints that can debilitate growth

THE KEY INITIATIVES

- InfyPlus—Aligning strategic initiatives with overall vision and managing the change
- Strategy Action Planning (STRAP) that outlines goals over one-year, three-year and five-year horizons
- Talent Strategy with Strategy Development Group to identify and nurture high-fliers
- Market Strategy & Action Planning
- Unit business plans / BEF Scalability Plans to project future growth

A FAR-FETCHED GROWTH STORY



GRAPHICS BY PINAKI PAUL

strategy is put in place through a STRAP (Strategy and Action Planning Event) event. Purohit informs that some of the themes might stretch into more than one time horizon. Being the world's best company in software and services is one such. "These themes aren't woolly, in-the-air thing. There are clearly metrics on which we measure and define the outcomes," adds Purohit.

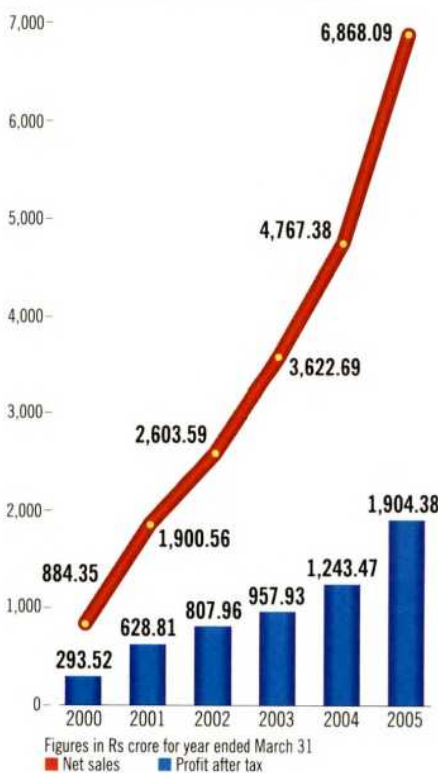
For instance, in 2003, one of the themes was to ensure that all Infoscians acquire a consultative outlook. This meant they would act on, rather than react to, a customer's requirements. Earlier, the challenge for Infoscians was to execute a given task within budget. The consultative approach was fundamentally different: employees had to interact with clients and acquire an indepth understanding of their requirements. "This is a more rigorous process and allows them to offer clients 'solutions' that address their needs. And unlike a typical consultancy, which only offers a plan of action, we actually offer to implement the POA. This way, we can charge the customer on the benefits accrued—from the

amount of money saved to other measureables—rather than bill them only for time and materials," says Purohit.

Training people for such a task was not easy. So, Infosys came up with its ITRAC (Infoscions as Trusted Advisor to Clients) programme. It is a bottom-up initiative. "It is easier to implement something new if there is a buy-in," he says. Clients are involved in the process—from evolving the programme to identifying the desirable outcomes. Communication is the key. "You can never over-communicate. Success depends on identifying what we want to achieve, defining how we plan to go about it and then measuring the outcome to determine its success. This requires effective communication," adds Purohit. Result: ITRAC is outcome-driven rather than just input-driven.

Infosys identified BPO, testing and validation services, and consulting as key to its growth in 2001. At that time, it had to take a 'make or buy' decision. Unlike its cross-town competitor, Wipro, which

INFY ON THE RUN



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bought Spectramind for Rs 453 crore in July 2002 to gain a lateral entry into the BPO/ITES sector. Infosys developed this business from scratch. The results are there for everybody to see.

In 2001, the company adopted its now-famous PSPD (Predictability, Sustainability, Profitability and De-risking) model. To ensure predictability, it became one of the first in India to provide guidance on future results. The sustainability plank was judged by whether clients kept coming back and/or referred other clients. Infosys enjoys one of the highest margins in the industry; this ensures high profitability. It also de-risks its portfolio by hedging its bets, thus, not becoming dependent on one or two customers.

But such initiatives alone aren't enough. The company has to ensure that they strike roots, so that the learnings become permanent and result in

a sustainable move up value chain. How? By changing organisational practices, strategy models and governance processes and bringing them in sync with the new initiatives.

While the Indian IT market has grown 30-40 per cent per annum over the last four years and has also given rise to several promising start-ups like MindTree Consulting and Cognizant Technology Solutions, industry watchers have perhaps most keenly watched the growth, evolution and the occasional mis-steps of Infosys. The company's Global Delivery Model has become the standard for the establishment of an efficient Indian IT services unit. Proof: even multinationals like IBM and HP have adopted it.

As one of the pioneers in the remote delivery of IT services, Infosys has transformed itself from being just a vendor of low-cost software services to

A. PRABHAKAR RAO



The sprawling Infosys campus in Hyderabad: So, this is where all budding software engineers go to

being a vendor of end-to-end offerings, beginning with consulting and applications development to implementation and business process management. In the course of its evolution, Infosys has belied the dark forecasts made by competitors and analysts alike about its initiatives in the consulting and BPO segments, where it took a longer-term view of the market.

New services now account for an increasingly higher percentage of revenues (from 22.8 per cent of topline in 2000-01 to 37 per cent in 2004-05). The company has focused on building long-term relationships with clients and has established five \$50-million plus (Rs 225 crore) relationships in the process. Cambridge-based technology research agency Forrester's Stephanie Moore says: "Infosys has taken a more strategic approach than other offshore players. To avoid becoming a commodity service provider, Infosys does not bid on deals that it considers non-strategic. It is one of the few Indian vendors that does not do pure staff augmentation engagements, and is rarely the lowest-cost bidder, preferring instead to differentiate itself through higher-quality skills, processes and offerings."

Its evolution from a plain-vanilla software services outfit has meant that it has focussed on ramping up its offerings on both ends of the food chain. Result: both top-end consulting and Progeon, its business process management subsidiary, are growing at a healthy clip. Akshaya Bhargava, CEO, Progeon, told analysts recently that it had blended its capabilities with Infosys and undertakes joint solutions development and go-to-market initiatives with its parent. Progeon today has nearly 5,000 employees and, unlike many of its rivals, has restricted "commoditised"

Its evolution from a plain-vanilla software services outfit has meant that it has focussed on ramping up its offerings on both ends of the food chain

voice work to just a fifth of its revenues.

Infosys Consulting is also showing promise; it already has 500 consultants on its rolls, each billing about \$200 (Rs 9,000) per hour. Leveraging the GDM (Global Delivery Model) means that Infosys can

go head-to-head with most expensive western consulting firms, but charge as much as 35 per cent less than their billing rates. Forrester, in a recent report, says the IT offshoring market is beginning to diverge. It expects companies like Infosys to reach further into the consulting market, while rivals such as TCS and Wipro increase their focus on the BPO space.

But these successes have not come without pain. Infosys has had to alter and tailor its fundamental business plans to suit changed economic landscapes; it has had to manage the hopes and aspirations of its growing workforce; and it has had to cope with the problems associated with being a global corporation. In 2003, as Infosys was racing full tilt towards becoming a



Never complacent: S.D. Shibulal, Worldwide Head, Sales and delivery



Consistent performer: K. Dinesh, Head, Quality and Information System

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multi-billion dollar company, clients began to ask uncomfortable questions over the scalability of the organisation's delivery model. Infosys rejigged its structure to focus on specific high-growth industries; this was a fundamental shift from its previous model of orienting itself towards specific technological capabilities. "We believe that this will enable us to focus on new vertical markets and provide business solutions leveraging technology and our global delivery model," CEO Nandan Nilekani told analysts at a post-results conference call in 2004. This vertical realignment was just one of the changes Infosys had to make; it also built a knowledge management repository called PRIDE (Process Repository @ Infosys For Driving Excellence) to accumulate and aggregate all the innovations of its thousands of employees.

For a company that has grown from just a 1,000 people and one building to over 50,000 employees from over 50 nationalities in the last 12 years, standing out in the crowd has become a habit, albeit one that it acquired the difficult way. At one level, Infosys has been split into several

smaller, semi-autonomous units of around 4,000 employees each. At another level, the company has an intricate career planning and succession management structure in place. Two-thirds of the founding team of six still hold executive posts at the company, but it is, nevertheless, putting in place a structure that will sufficiently address the career aspirations of ambitious mid- to senior-level managers."

"We still have tremendous room to grow in the global software and services industry. Our biggest challenge will be our ability to scale up even as we maintain the DNA of the organisation. We will continue to add skillsets and customer focussed solutions to

provide a value differentiator in the market," says Nandan M Nilekani, CEO, President and Managing Director of the company.

This will test the Infy Plus model of having an integrated management structure that, theoretically, should give it the inherent ability to scale up fast. But if past record is any indication of future progress, then Nilekani and company have little reason to worry.

Infosys has transformed itself from being just a vendor of low-cost software services to being a vendor of a complete array (end-to-end in techspeak) of offerings



Infosys Bangalore: Don't disturb! Great minds at work

FIVE THINGS THAT CAN GO WRONG

- Managing scale is a key challenge. In terms of revenue, people, projects, in short on all fronts
- Failure to execute
- Inability to move up the value chain and broadbase offerings
- If it fails to integrate and motivate a multi-locational, multicultural workforce
- Inability to offer a compelling value proposition



BHASKAR PAUL

INTERVIEW NANDAN NILEKANI/ CEO & MD/ INFOSYS

"We have to anticipate change as we grow"

INFOSYS TECHNOLOGIES CEO & MANAGING Director Nandan Nilekani spoke to Business Today's Venkatesha Babu on the transformation initiatives taken by the software company. Excerpts:

What was the 'case for change' in your organisation?

As the world economy continues to grow, businesses will increasingly exploit opportunities in the global marketplace. The greatest benefits of globalisation will accrue to countries, businesses and communities that can access and adopt new technologies in all walks of life. More firms will become global, and those operating in the global arena will become more diverse, both in size and origin.

Therefore as the size, scale, complexity and footprint of our business changes, and as we become larger and more strategic for the customers and the countries we operate in, it becomes important for us to anticipate change and

be able to differentiate ourselves as we grow. The fundamental tenets of speed, imagination and excellence in execution will be the key to being successful.

I think the current business environment continues to challenge the abilities of our clients to achieve higher return on every dollar they invest. Therefore, they look at us to offer high quality business solutions with predictable execution capability at lower costs. While the global 5-year CAGR for IT services is 5 per cent, Indian IT exports have been growing at 29 per cent and Infosys is growing at 45 per cent. This is due to the strength of GDM (Global Delivery Model). Clients realise GDM is about high value at low cost, it's about leveraging global talent pools and capabilities.

I think the current business environment continues to challenge the abilities of our clients to achieve higher return on every dollar they invest

As the competitive landscape changes and large onsite players announce big plans in India and the Global Delivery Model we pioneered becomes mainstream, all players will have to make fundamental changes in their business model to make it more

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growth-oriented and to build new capabilities. It is exciting and energising.

What was the aspiration for the change you wanted to achieve? Have your aspirations changed at any stage since the outset?

When we founded Infosys, we wanted to create a world class company that attracted the best in class people. We believed in the principles of being ethical, fair and honest with our customers, employees, investors and other stakeholders and today we can proudly say that we have been quite successful.

However, we still have a long way to go and have to focus on constant innovation. We started as a software services company, and then transformed into a company offering best in breed IT-enabled business solutions. Our aspiration going forward:

Be a large global organisation, demonstrating consistent performance and profitability; be recognised for creating customer and employee value—building deep relationships and loyalty; be an end-to-end business transformation player—with appropriate brand awareness and positioning; leverage Global Delivery Model with sustained excellence in execution; and be led and managed by talented and best in class people, have a multicultural workforce with strong performance ethics.

As we expand into new geographies, we face a whole new set of challenges. The first is the increase in the competitive intensity of the marketplace. When we began, we were a niche player, below the radar screen. Our offering was seen as another service, to be used as an alternative way of doing the existing work. Moreover, the huge investment boom of the bubble era masked the inherently disruptive nature of our offering. At that time, there was enough business for all. Today, in a far more

difficult scenario, where our global customers are unable to raise volumes or prices, the offshore model has gone mainstream.

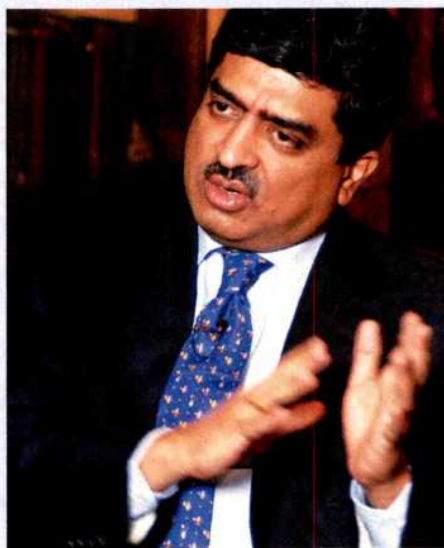
The second challenge is, conversely, to get more local. As we morph from being merely global to a true multinational, we need to plant more local roots. This includes more local hiring (either organically or through acquisitions), and becoming a more embedded part of the countries and communities where we operate. Infosys, today, has employees from 53 nationalities. Creating a multicultural outlook is part of our effort to truly leverage the power of globalisation and achieve long-term survival.

The third challenge is to become a company that is seen by customers as a trusted advisor and strategic partner. We have to learn to be more consultative, to be proactive with business solutions that meet the customer's challenges, and to interact with felicity with our counterparts in the boardroom. Our whole effort today, be it changes in the organisation structure, investments in business solutions, alliances and

acquisitions, or training of client facing people, everybody in the company is geared towards this change. An important part of this is to define a new model of outsourcing that resonates with our customers' needs, protects their strategic interests, and is based on the global delivery model we pioneered.

In addition, we also have to work towards continuously increasing efficiency and speed. We have to continuously increase our productivity by leveraging technology and by ensuring an effective knowledge management framework. Thus, the challenges of globalisation for tomorrow are different from those of the past. However, we approach them with zest and enthusiasm.

What is your change agenda for Infosys? And how do you build a consensus around the agenda?



When we began, we were a niche player. Our offerings was seen as another service, to be used as an alternative way of doing the existing work

Our business is characterised by constant redefinition of what is value to the client and what is a competitive differentiator. We started by providing our clients services that helped them to bring down the total cost of ownership of an IT application by using our offshore delivery model.

Today, clients want us to define for them how technology can be leveraged to address their business problems. Similarly, the Global Delivery Model has become mainstream and the global giants are trying to emulate this model, as their clients begin to demand it.

Thus, we need to: differentiate ourselves from the competition by providing more value to customer and evolve our relationship to that of a trusted advisor; and continue to grow at above the industry average, this time around on a larger revenue base because size itself will become an entry barrier in this industry.

Importantly, we have to do these fast because the competition and markets are evolving at a rapid pace. Last year, we identified two strategic intents for the company: rapid differentiation and rapid growth, as we aspire to achieve global leadership in our business domain. As we move further on this journey, we felt the need to sharpen our focus and accelerate the differentiation initiatives.

Some of the ways of doing these would be to exceed customer expectations in each transaction by developing their understanding and acceptance of our capabilities and demonstrating value that we can bring to client; partner with clients to solve their business problems using technology rather than providing just a technical solution; leverage our global delivery capabilities to define a distinctive value proposition to client in large outsourcing deals; work on potential supply constraints that can affect our ability to grow and address the emerging opportunities; and build on our competitive strength of GDM by developing a new way of delivering services.

Most importantly, our success in delivering on each of the above will depend on our ability to attract, retain and develop best of talent. Given the above, Infosys has introduced an integrated change management programme, InfyPlus, which aims to take the company to the next generation of performance.

We have reached a point of inflection where we can

The InfyPlus programme was engineered with the idea of aligning the strategic initiatives with our overall vision and managing the change that is likely to come

challenge the incumbent leaders and aspire for global leadership in the businesses that we operate in. However, to challenge means to be proactive in our approach, rather than just reacting to market forces and developments. We need to lay the tracks for others to follow, rather

than build expertise in the latest trend that someone else has set. To do that, we need to be pioneers.

Over the years, several new changes and growth initiatives have been started at Infosys to help position us as market leaders. While these initiatives are a step in the right direction, it is essential that when they are implemented, they flow into the same strategic stream. Also, their progress needs to be monitored continuously to ensure that the output is synchronous with the original goals. Further, the output needs to be timely to be relevant to the organisation.

The InfyPlus programme was engineered with the idea of aligning the strategic initiatives with our overall vision and managing the change that is likely to come as a result of these initiatives. The programme provides a common platform to review and evaluate all strategic initiatives underway in the company, brings them in sync to achieve optimal benefits, and prevents duplication of effort. The programme also provides the mechanism to adjust the thrust of our initiatives with the evolution of the market environment. In a nutshell, the programme, currently in its fourth year, is our vehicle to move to the next orbit of our business; hence, the name InfyPlus.

Are you able to maintain a steady pace without losing control of the effort?

Infosys has incorporated a stringent review mechanism to support the planning cycle initiatives. The review processes kick in from the offices of the programme managers all the way to members of the boards. This extends into the management council meetings that are scheduled exclusively for reviews eight times a year. InfyPlus is managed by the Office for Program Management (OPM). Additionally, all initiatives are headed by senior leaders who steer the programmes and keep them going forward. Infosys has also instituted a set of change champions like S.D. Shibulal who take concepts and convert them into action. ■

KOTAK MAHINDRA **FROM AN NBFC TO A BANK**

Kotak Mahindra was the first, and so far only, non-banking finance company to have made this transformation. It's been one hell of a journey, and one well worth the effort. But its best years may still lie ahead.

A BT REPORT

IT HAS CHANGED WITH THE TIMES. FOR NEARLY 19 years, Kotak Mahindra Finance (KMFL) was a non-banking finance company (NBFC), providing a range of services ranging from bill discounting to investment banking, broking and asset management. When the Reserve Bank of India (RBI) issued fresh licenses for new private banks, Kotak Mahindra became the first to convert itself into one in March 2003.

Ask Uday Kotak, the 46-year-old Executive Vice Chairman and Managing Director of Kotak Mahindra Bank (KMB), about transformation and he will tell you that he first dreamt of becoming a banker more

than two decades ago, when he passed out of B-school. But that wasn't possible then, so he set up KMFL in 1985, whose mainstay was bill discounting. Reminiscing about the banking foray, Kotak says, sitting in his corner room on the second floor of the bank's headquarters in Bhaktawar Building in Mumbai's Nariman Point: "It was a belief that the only missing piece in the entire suite of products was the bank. If we wanted to be a financial institution of stature, size and scale, we had to make a leap. We saw a great ability to synergise and integrate to become a world-class institution if we entered banking."

Dipak Gupta and C. Jayaram, Executive Directors



PHOTOGRAPHS BY UMESH GOSWAMIK, SOUMIK KAR

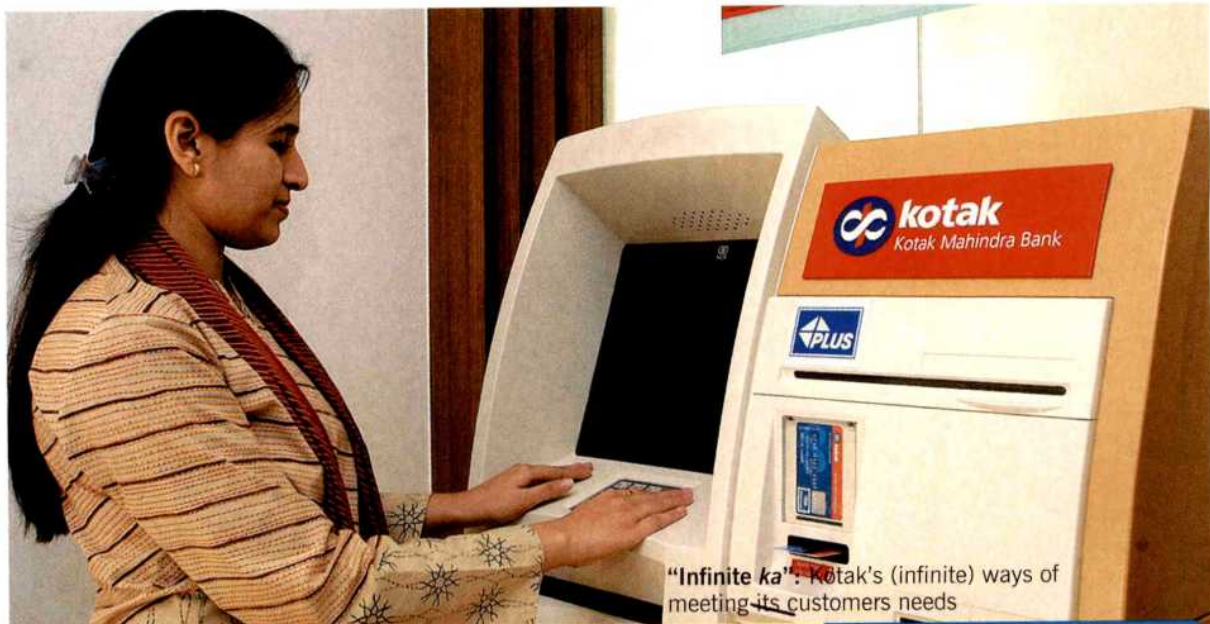
Uday Kotak: "We saw a great ability to synergise and integrate to become a world-class institution if we entered banking"

BT SPECIAL PERFORMANCE TRANSFORMATION

of Kotak Mahindra Bank, elaborate on the logic behind the conversion. "Borrowing cheap is the key to the profitability of any finance business. If you are in the asset financing business, the cost of liabilities are an important part of the model, and over longer periods of time, it is a standard model to try and bring down the cost of borrowings; this gives better spreads, and, consequently, profits. And banks have an advantage over other financial intermediaries as they can mobilise deposits at interest rates as low as 4 per cent on savings accounts and zero per cent on current accounts. Also, banks are able to leverage their net worth more than 10 times, compared to six times in the case of an NBFC,"

says Jayaram.

There were intangible reasons too. KMFL had an unblemished record and a squeaky clean image; but, following a series of scams in other NBFCs, the sector itself began to be viewed with a degree of suspicion. Converting itself into a bank was the obvious way to avoid this situation. Says Jayaram: "A bank lifts the credibility of an organisation. When an investor thinks of the financial services space, it is the bank which comes to mind first. So clearly, it made sense to convert KMFL into a bank as this would immediately result in a finance company moving its operations to an industry that has a much safer profile than an NBFC."



THE DESIRED TRANSFORMATION

- Emerge as a global financial institution
- Emerge as a one-stop shop for all financial needs
- Emerge as a bank of choice for high-end clients
- Develop a common identity across businesses
- Offer differentiated, value-added services

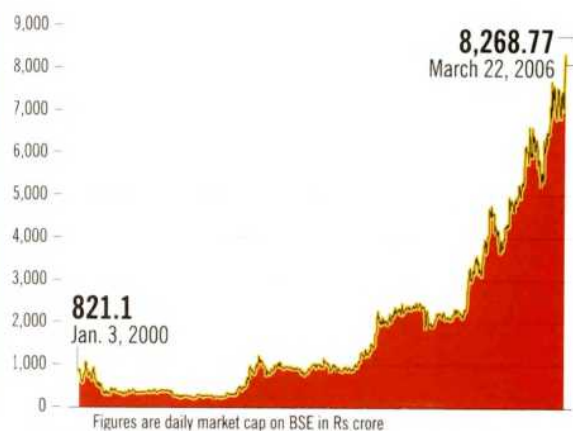
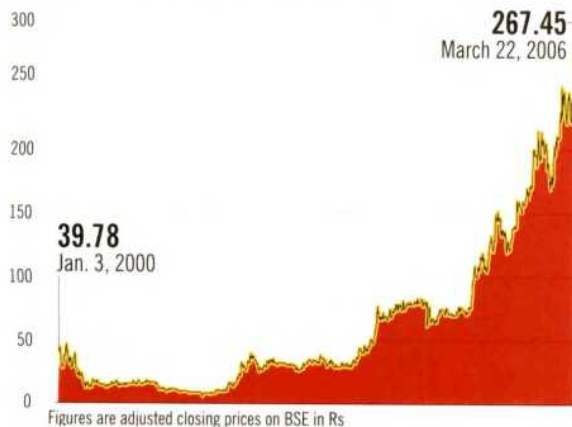
THE CHAPTERS OF THE CHANGE STORY

- Tie-up with Goldman Sachs in 1995
- Converted to a bank in 2001
- 6=1 initiative to consolidate brand identity
- Creating a new HR matrix that allows old and new employees to get into a team
- Communicating change to employees and stakeholders

THE KEY INITIATIVES

- Acquiring a banking license
- Rebranding Kotak; new logo
- Recruiting new people and initiating them into the Kotak culture
- Addressing regulatory and operational issues
- Communicating and explaining short-term profit dip to shareholders

FROM STEADY TO STEEP



GRAPHICS BY PINAKI PAUL

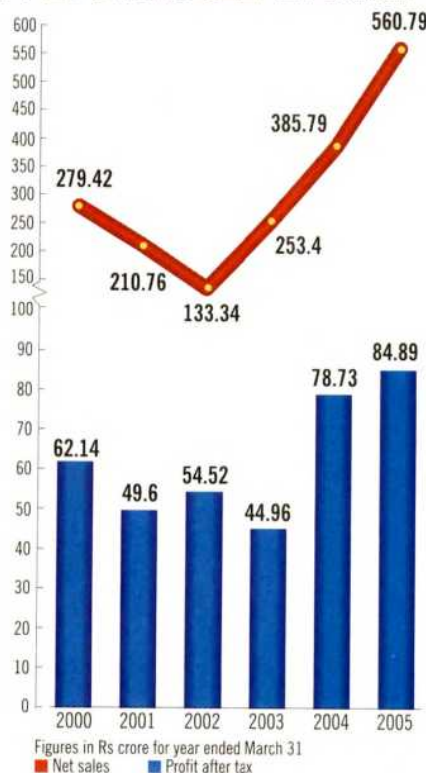
In January 2002, KMFL received the go-ahead from RBI to convert itself into a bank. Says Gupta: "It was the first time that an NBFC was being converted into a bank, so there were a lot of issues that had to be sorted out. There was no roadmap, since it had never been done before. At our end, there were many operational issues that needed attention. There were regulatory issues, too, as the RBI had never had to address many of them before."

KMFL adopted a series of small steps toward its goal of converting itself into a bank. The first step was the branding exercise. KMFL was structured into six different businesses, each with a different corporate identity. Says Kotak: "Starting with the conversion into a bank, we adopted a common brand identity. We created a single image in the mind of the customer, a synchronised face. Whether it is insurance, mutual funds, broking or the bank, it had to be a common brand." To reflect the new corporate identity, Ray + Keshavan, a leading design firm, was commissioned to develop a new logo, called the "Infinite *ka*" (the earlier logo was the Kotak cube) in red, blue and

white. The new logo reflects the global Indian personality. The *ka* is uniquely Indian while its curve forms the infinity sign, which is universal. The logo conveys that Kotak has infinite ways of meeting individual needs. Its rendering is entirely contemporary and international, in line with the Kotak criteria of wanting to communicate global standards. The company sums up the result of this branding exercise with a simple equation: $6=1$ (six businesses equal to one). "Each of the six businesses benefits from the trust associated with the bank," says Kotak.

Simultaneously, KMB communicated the changes to all its employees at special events held in every city. These meetings were addressed by Kotak and members of his top management team. "We wanted to involve employees at every level and ensure that they were part of the change," he says. Simultaneously, several consultants were roped in to help out. PricewaterhouseCoopers advised the company on processes, Mphasis was hired as technology advisor, iFlex for project implementation and McKinsey & Co. for advising

A BANKABLE BANK?



BT SPECIAL PERFORMANCE TRANSFORMATION

the management on positioning.

In its new avatar, Kotak Mahindra Bank was a 20-year-old new bank. Says Gupta: "We couldn't be just another bank. Our USP lay in managing investments. We wanted customers to think of Kotak whenever they thought of investments. That is different from thinking: We are a bank, so let's have savings accounts." Adds Kotak: "A customer today is not a passive saver; he is also an investor; and India, a nation of savers, is becoming a nation of investors. And this was the opportunity we wanted to tap." The value proposition Kotak Mahindra Bank offered customers was personalised investment advice. This was the theme of its ad campaign "Think Investments, Think Kotak". The integrated gameplan was to meet every investment need of a consumer; this meant straddling the entire value chain from plain bank accounts to mutual funds distribution to insurance to securities trading. With an existing customer base of 5 lakh, the initial strategy was to follow the McKinsey & Co. recommendation: target only those

households which have an annual income of Rs 4.5 lakh, and that too, predominantly in large cities.

Having zeroed in on positioning, the rollout of technology, architecture, location of branches, design of branches and manpower requirements were worked out. KMFL had very few people with the skill sets required to run a bank. Key people had to be brought from outside. But the first question was: who would head the bank? If the group had to provide all the services under the bank umbrella, then Kotak was the obvious choice for the position. However, Kotak was the group's dealmaker and its public face, and consequently, invested most of his time in investment banking. Therefore, there arose a need for someone to lead investment banking. Ajay Sondhi was wooed in from UBS for this task (he has since left Kotak and moved to Singapore. Falguni Nayar has replaced him). Next, Dipak Gupta was selected to lead the banking project. Soon the top management team—Kotak, Gupta, Jayaram, Sondhi, Shanti Ekambaram (corporate banking) and Shivaji Dam (he is currently



Top management team: (From left) Executive Director C. Jayaram, Shanti Ekambaram and Shivaji Dam

on a sabbatical, but very much with Kotak)—was in place. Most of them are old Kotak hands and have been with the group for years.

Several new people were also recruited. By June 2002, Kotak Mahindra Bank had 450 people on its rolls; this included some who had been transferred from its subsidiaries. The big challenge was to create an enabling environment in which this mix of old hands and new recruits—who obviously hailed from different work cultures—could deliver on the group's goals.

For a bank, brick and mortar branches are a must. KMFL had 30 offices, but not all of them qualified to become bank branches. By March 2004, the bank had 17 full-fledged branches across nine cities. It also had to offer every banking product from day one, so high-tech banking was the solution. Since it had only a small number branches, KMB opted for home banking. Asks Kotak: "If you can get pizzas sitting at home, why not money?" Timely and efficient service was what he was banking on. From day one, Kotak Mahindra Bank customers had access to over 800 ATMs free of cost, through a sharing arrangement with UTI Bank. Additionally, customers had access to the entire VISA network of 4,500 ATMs in India and 8 lakh ATMs worldwide, at a nominal cost; moreover VISA debit cards were accepted in more than 56,000 establishments across India.

In parallel with these operational issues, the KMB management also had to grapple and comply with a host of banking regulations, which are very different from those that apply to NBFCs. KMFL merged four of its investment firms—Scope Holdings, Twilight Holding, Mega Asset & Capital Management and Guldasta Investment & Trading—with itself, since the rulebook says the Managing Director of a bank cannot hold more than 5 per cent equity in any other company. And Kotak held substantial stakes in these investment companies.

Says Jayaram: "There was a major shift in compliance for us. As an NBFC, compliance was never a top of the mind issue, whereas in banking, it is always right up there. You had to push this new mindset right down the system. Banks have to conform to cash reserve ratio (CRR) and statutory liquidity ratio (SLR)

From day one, Kotak Mahindra customers had access to over 800 ATMs free of cost, through a sharing arrangement with UTI Bank, and the entire VISA network of 4,500 ATMs in India

requirements. KMFL had liabilities of Rs 1,200 crore; on the day of its conversion into a bank, it would have to provide for SLR and CRR requirements. Having invested Rs 350 crore in gilts, Kotak Mahindra Bank was ready with the CRR and SLR requirements three months

before D-day. As an NBFC, KMFL had a large exposure to truck financing, which qualified for priority sector lending. The zero per cent NPA on this exposure of Rs 1,200 crore was a big plus at the time of conversion.

People, technology and infrastructure were the three main heads of expenditure at the time of conversion. These costs were reflected in the quarterly numbers. Big investments were needed for technology and infrastructure, setting up new branches and recruiting people to man them. The staff strength rose from 400 to 1,200 in a matter of months. Staff costs



Executive Director Dipak Gupta: Kotak ain't just another bank, in his opinion

BT SPECIAL PERFORMANCE TRANSFORMATION

rose to Rs 5.58 crore for the quarter ended December 2002 from Rs 3.10 crore in the previous corresponding quarter. Since then, staff costs have gone up steadily: to Rs 84.35 crore for year ending March 2002, to Rs 102.8 crore for the next financial year, and Rs 158.78 crore for the year ending March 2004. Today, Kotak Mahindra Bank has a staff strength of around 4,000. Says Kotak: "We went to our investors every quarter while we were becoming a bank, clearly stating the cost of branch banking which we wrote off in the P&L account." The hit: Rs 100 crore a year over the last two years.

The impact of transformation was visible in the numbers that the Bank has put out. A year after its launch, the annual net profit of Kotak Mahindra Bank shot up from Rs 44.96 crore in March 2003 to Rs 78.73 crore in March 2004, and Rs 84.89 crore in March 2005. For the half year ended September 30, 2005, its bottomline stood at Rs 50.85 crore. As an active advisor to, and as a partner of, its customers, it has emerged as the second largest distributor of investment products like mutual funds. In November 2004, Warburg Pincus, one of the largest private equity funds in the world, with over \$13 billion (Rs 58,500 crore) under management, picked up a 2.75 per cent stake in Kotak Mahindra Bank for Rs 75.9 crore. This was its first ever investment in an Indian bank. Currently, Warburg Pincus owns about 5 per cent of KMB.

The bank's next thrust: roll out more branches. The initial target of 50 to 60 branches by 2007 has been raised to 100 branches. This will make it the larger than the largest foreign bank in India. To meet rural banking targets, branches are also being planned in areas where trading in various commodities is popular. The finance company-turned-bank-turned-financial supermarket has also set itself several other targets.

Its corporate and institutional customers are offered working capital, trade services, transaction banking, securitisation, money market and foreign exchange services under one roof. It has already established a presence as a provider of value-added services to customers in the area of third party product distribution.

Now, the bank is putting in place its end-to-end solutions strategy across geographies.

Twenty years ago, Kotak dreamt of having a bank under the Kotak Mahindra umbrella, just like J.P. Morgan and Merrill Lynch did 150 years ago. That dream has been realised. Now, he is dreaming of offering global products for the global market, just like Citigroup. It may still be too early to think of an Indian institution in the same league as Citigroup, but as Kotak puts it "If J.P. Morgan could do it 150 years ago; if an Indian sitting in London can own the world's largest steel company; why not an Indian banker sitting in Mumbai?" Indeed, why not? But that'll be one hell of a transformation story when it happens.

The annual net profit of Kotak Mahindra Bank has shot up from Rs 44.96 crore in March 2003 to Rs 78.73 crore in March 2004, and Rs 84.89 crore in March 2005



KMB's next thrust: To roll out more branches like the one above



FIVE THINGS THAT COULD GO WRONG

- Change in regulations
- Key executives may leave
- New employees may not integrate into the company's culture
- Change in interest rates could affect margins
- Going global could expose it to political and exchange risks



BHASKAR PAUL

INTERVIEW UDAY KOTAK/ EXECUTIVE VICE CHAIRMAN/ KOTAK MAHINDRA BANK

"We tried to create a single image in the mind of the customer, so that he would see a single brand"

THE EXECUTIVE VICE CHAIRMAN AND MANAGING DIRECTOR of Kotak Mahindra Bank spoke to Business Today on the transformation story at his company. Excerpts:

What was the case for change in your organisation?

Transformation is, in a sense, a dream; a dream that goes back 20 years; when a young guy just out of management school scanned the Indian financial sector and then looked at what was happening elsewhere in the world. What did I see globally? There was J.P. Morgan, Goldman Sachs, Merrill Lynch, and Morgan Stanley. These are all names of individuals and

families. These family names must have been small firms to begin with, which saw the huge US market and created world-class, world-size institutions over the next 100 years. The reason why family names are used is simple: in the finance business, reputations mean a lot. You should be able to put the family name and reputation on the line. The Indian financial

sector was barren. At 24, you have the luxury of dreaming because there is very little downside. I asked myself: Why can't I dream? And that's the dream I have chased. If you look at our journey, beginning 1985, you would notice that there is some method to the

"At 24, you have the luxury of dreaming because there is very little downside. I asked myself: Why can't I dream? And that's the dream I have chased"

BT SPECIAL PERFORMANCE TRANSFORMATION

madness. You do it step-by-step, evolving and at some point of time, you take the leap of transformation. I think, for us, the big leaps of transformation came around 1995 (when Kotak set up a joint venture with Goldman Sachs) and in the 2001-2003 period (when it entered the life insurance and banking sectors).

What was the aspiration for change you wanted to achieve?

It was a belief that to be a financial institution of stature, size and scale, we had to make the leap. Looking at the entire suite of products, the missing piece was the bank. We saw a great ability to synergise and integrate to become a world-class institution in banking.

What initiatives did you take as a part of this transformation?

We first did a branding exercise. I am a great believer in brands, and in financial services, branding is as critical as anything else; and the brand has to be backed by performance. We developed a new look and logo. The new logo, called the "Infinite ka", is in red, blue and white. We tried to create a single image in the mind of the customer, so that he would see a single brand, whether he was dealing with the bank, the insurance company or the mutual fund.

What was the fundamental mindset shift you wanted to achieve?

The philosophy was: we will be focussed on being the best in class, be value driven and offer everything other banks offer. We would use the leverage of becoming a bank to significantly drive home the advantage of a single financial institution group. Our 2004 annual report mentions 6=1. That means six companies but one

brand. Earlier, all our businesses worked like silos. The unified passion to build a single consolidated business was driven around the time we became a bank. It did not matter which entity you worked for; you are a part of the same consolidated group.

There are major differences in the levels of compliance between a bank and an NBFC. Once you say I am going to comply in letter and spirit, you find the rewards of customer trust keep getting better. I often joke at internal meeting about how we can take a leaf out of Infosys' book of governance: how can we become the Infosys of banking, in terms of standards of governance? That is the level of commitment we need to build a world-class and world-scale institution.

What about individual capacity building?

One big challenge we faced was how to balance the needs of our existing resource pool of people with

those of the new ones. We did a reasonable balance between the two, as we took some people like Ajay Sondhi (he has since left Kotak), Mohan Shenoi and Arvind Kathpalia from outside. When we became a bank, our strength was 1,200. In two years, we have almost quadrupled our strength to 4,500.

You had a year to transform. How did you manage the short-term goals and long-term expectations?

We went to our investors every quarter while we were becoming a bank and clearly stated the cost of branch banking which we wrote off in our P&L (profit & loss) account. We disclosed to the investors the costs we were incurring as it impacted quarterly performance. So, the investors who were buying into us were aware of the costs. This way, we ensured that



"I am a great believer in brands, and in financial services, branding is as critical as anything else; and the brand has to be backed by performance"

these costs did not deter us or put pressure on us to deviate from the path we had set ourselves on. Between the bank and insurance business, we have taken a P&L hit of over Rs 100 crore a year over the last two years. The investor world understands this but we had to communicate it in the right way.

How did you set the pace of transformation?

It's a classic marathon. What happens if you run too fast early? You tire out. And if you run too slow early on? You find it difficult to catch up. You have to maintain a steady rhythm and at appropriate points of time, burst into a sprint. At Kotak Mahindra, we worked furiously for 12 months between getting the in-principle banking license and the final one. When we had to open the first branch, we were concerned, but we just sent out the cards. We just had to do it. This is despite the fact that there was no one competing or opening a bank around that time. At every step, there is a long-term strategy and at every step, we keep on looking at what we can do. Setting up branches, for instance... We started with a vision to set up 50-75 branches by March 2007. Now, we are saying 100 branches by March 2007, considering the size of opportunity. That will make us larger than the largest foreign bank.

How were the changes made physically evident? And what did you do to ensure that the changes stick over time? Please elucidate.

The major initiatives were technology and people. We did a deal with a business magazine, wherein each employee got a picture frame as if he/she was on its cover. That was a symbol that history was being



"I am as much a part of leadership as everybody else. Management success at some level is a combination of passion and process. I want my entire team to have both"

created and each employee was given this as a symbol that he/she was part of the history being created. Each employee felt that he/she has created history. Next, whenever we opened a branch, we had a full day plan for the launch. It was like a drill—ribbon cutting, followed by a press meet, then an employee meet in that city and ended with a dinner with customers. So, there was an opportunity to regularly communicate with various stakeholders.

Has the quality of leadership improved?

It is a continuing journey. I, too, keep learning. I am as much a part of leadership as everybody else. Management success at some level is a combination of passion and process. Process alone takes you up to a point, but you need passion too. I want my entire team to have both.

Going ahead, how much of your change programme focusses on the short-term and how much of it focusses on long-term shifts in performance?

We have just floated a private equity fund (called the India Growth Fund) where we have collected \$160 million (Rs 720 crore); we are setting up a real estate fund; we will be far more active in asset recovery and in international subsidiaries to build more footprint overseas. If you look at the evolution of institutions, it starts with single product, single market, then moves to multiple products, single country, then single product and global market and lastly global products and global markets. The final destination has to be global products and global markets. When will an Indian institution become a Citigroup? I had thought about it the same way some 20 years ago. That's the beauty of dreams. ■

**BT
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TRANSFORMATION**

ASIAN PAINTS **STEP BY STEP**

Asian Paints is repositioning itself as a multinational with a presence in every segment of the paints industry.

A BT REPORT

IN 1997, INDIA'S LARGEST PAINT MAKER, ASIAN Paints, faced a crisis. ICI plc, a UK-based multinational, was in the process of acquiring a 9.2 per cent stake in the company from one of its promoters, something the other three promoters opposed vehemently. It was a complicated and long drawn-out battle. The management saw off the challenge, but realised, while fighting the takeover attempt, that though Asian Paints was financially strong, there was still sufficient scope for improvement on several parameters. "We felt that we had not exploited our strengths properly vis-a-vis our competitors to the extent that we could have," feels Ashwin Dani, Vice Chairman & Managing Director, Asian Paints.

As a first step towards correcting this perceived lacunae in its performance, the company hired the services of Booz Allen & Hamilton, a management

consultancy firm, in early 1998, to advise it on restructuring the company. Jalaj Dani, Head, International Business, explains the thought process behind the move. "Customers were becoming more discerning. Also, people were travelling abroad much more and experiencing the best in the world; they returned home with heightened expectations... they wanted the same quality of services back home. The spread of the television culture in the country also increased exposures and expectations of consumers. Asian Paints had to transform to remain relevant in this changed milieu. We had always cultivated a mindset of excellence, but that was no longer enough. We had to become a global company. Globalisation, for us, didn't mean merely exporting or manufacturing abroad; it meant satisfying customers around the world with the best technology, with the best resources and at the lowest possible cost. This implied



Top echelon: The company revamped its business model in 1998 to become a more modular organisation

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making far-reaching changes in our business model and this is the journey we embarked upon in 1998," he says. The management went back to the drawing board and redrew the entire architecture of the company. The result: Asian Paints became a more modular organisation, with separate business units (BUS) in charge of individual segments within its overall business spectrum.

Until 1998, Asian Paints operated as a single entity, though it did have a subsidiary, Asian PPG Industries Ltd, which was a joint venture with PPG Industries of the US, in the automotive coatings segment. This joint venture has done well, aided by the auto boom in the country. Proof: apart from Maruti, most automakers in the country prefer paints from Asian PPG.

The restructuring split the company into three sub-entities or BUS. These were the Decorative Business Unit, the Industrial Business Unit and the International Business Unit. "We had always been strong in indoor paints, but we needed to focus more on other growth areas as well. The exterior paints market was growing... I'm happy to say that our efforts at broad-basing our portfolio of products have paid off, and we're now doing very well in high-end emulsions as well," says P.M. Murthy, President, Decoratives BU.

The company also changed its logo and packaging. "It always helps to have a more contemporary and modern image. We want to be seen as a young, vibrant organisation," says Jalaj Dani, explaining the

rationale behind the change in the logo. Even the packaging was changed to incorporate the "drip" design. It also opted for red and yellow colours, which, its advisors said, had an international feel to them. "People identify with the Asian Paints brand, so we made sure that the brand was given more prominence over the sub-brands," says Murthy. The company also moved into its new headquarters in suburban Mumbai in 2002. "Earlier, our people were scattered across four offices. It made a lot more sense to move everyone into one building. This helped our internal communication processes," he says. The organisation has introduced flexi hours, and the office design promotes an informal ambience. It has also recently introduced 'Open House' sessions where employees discuss issues that concern them with senior managers; this breeds transparency and de-emphasises hierarchy, and, in the process, improves morale. Further, Asian Paints recently revamped its Performance Management System and has brought in Key Performance Indicators (KPIs) which are used to track every executive's performance.

The company also changed its basic focus. "Our overall performance had always been profitable. We were market leaders in the decorative paints business, but the key to being successful in the post-liberalisation era is that now, the focus has changed from capital allocation to shrinking the balance sheet to ensure better utilisation of capital," informs Murthy.

THE DESIRED TRANSFORMATION

- Establish the Asian Paints brand in new areas like industrial paints
- Establish a commanding presence in Egypt, Bangladesh, Sri Lanka, UAE, Thailand and Malaysia and become a paints multinational
- Become the paint of choice for all classes of customers
- Form a special bonding with retail customers
- Become an R&D-led paints company

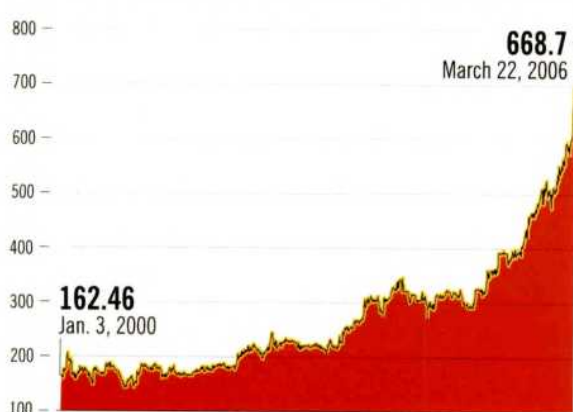
THE CHAPTERS OF THE CHANGE STORY

- Separated the business into the Decoratives, Industrial Paints and International Business units
- Expanded the decoratives unit beyond house paints
- Introduced a Customer Relationship Management initiative
- Stressed mainly on high-growth segments
- International unit focussed on establishing itself in emerging markets which are the biggest consumers of paint

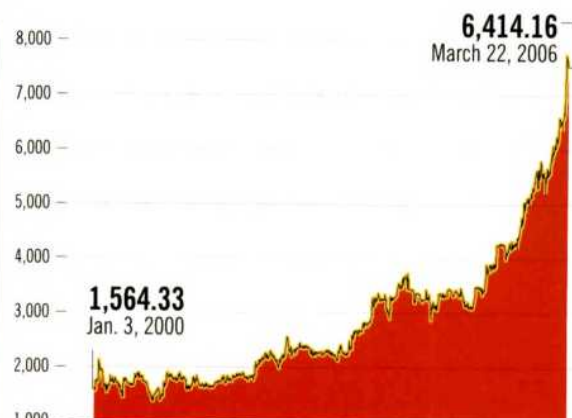
THE KEY INITIATIVES

- New logo and corporate identity in 2002 to keep the brand contemporary
- Launched products at every point of the price band
- Tools like 5S and Six Sigma were adopted, leading to increased discipline and productivity on the shop floor
- Acquisitions overseas helped establish its presence in emerging markets
- Several retail initiatives like Colour World, Kids World, Home Solutions and Helpline

THE GROWTH SPECTRUM



Figures are adjusted closing prices on BSE in Rs



Figures are daily market cap on BSE in Rs crore

GRAPHICS BY PINAKI PAUL

The paints industry is highly working capital intensive, but Asian Paints managed to bring its working capital use down substantially between 1998 and 2004. "Not only did we bring down our working capital requirements considerably, we also managed to bring down our inventory levels as a result of which a lot of funds were freed; this, in turn, helped us get additional credit from suppliers. All of these helped in bringing down the working capital requirement further," he says. An FMCG analyst with a leading brokerage firm confirms this: "Paints is an extremely working capital intensive industry and Asian Paints has done an excellent job of managing its cash and inventories."

Innovative use of IT tools helped the company achieve this. Asian Paints did things its own way though. "Most companies first go in for ERP (enterprise resource planning) and then bring in SCM (supply chain management). We did it the other way around. The reason was that although our home-grown systems were relatively good, we felt that they needed some sort of upgrade to keep up with the way the business was growing. The SAP package wasn't ready yet, but we got an assurance from i2 that it would help us integrate the two systems once we implemented ERP," explains Dani. Incidentally, Asian Paints is the only company in India to have integrated the SCM solution from i2 with

the ERP solution from SAP.

The benefits were evident from day one: greater transparency, better co-ordination between the corporate office and the company's far-flung plants, reduced finished goods inventory and improved accuracy in making demand forecasts. All of these resulted in increased efficiency and higher savings, which immediately went to the company's bottom line. "SCM enables us to see transparently what is happening, and allows us to integrate all the processes," says Murthy. Another tool, the Customer Relationship Management (CRM) tool, led to increased interactive retail options for consumers and led to the launch of the Asian Paints Helpline and Asian Paints Home Solutions programmes.

Another benefit, Jalaj Dani adds, was that these tools made it easier to capture insights into consumer behaviour and then, translate this market intelligence into new products. "The time in which we can deliver a new product to the consumer has gone down considerably. Also, as we globalise, it becomes necessary for us to be able to replicate what we do in one country in others as well. This makes it imperative for us to have systems in place which allow us to take these best practices around the world," he says. At the same time, the company has been working to see how it can

In 1998, the management redrew the entire architecture of the company. It was split into three sub-entities and the company's logo and packaging were also changed

BT SPECIAL PERFORMANCE TRANSFORMATION

provide better service and products to the customers, not just in India, but also globally.

In keeping with its credo of becoming a customer-oriented organisation, Asian Paints has launched a slew of retail initiatives over the last five years. The biggest, perhaps, was Colour World. Launched in the mid-90s, Colour World boasts of around 5,300 outlets around the globe, which offer over 1,000 shades to customers. It's USP: the company ships only a limited number of base colours to its outlets; tinting machines at the retail outlet then add various colours and colourants (compounds that allow these colours to mix) in pre-determined ratios to create any shade the customer desires. There's more: photometer. Customers can bring in any sample—a mug or a tee shirt—and walk out with a shade closest to the sample. Asian Paints has also introduced Kids World which deals primarily with doing up kids' spaces. Apart from recommending different colour palettes for kids' rooms, it even provides stencils which can be downloaded from the Asian Paints website if you are planning to do the room up yourself. Apart from this, Asian Paints introduced a toll-free Helpline in 2001 which customers can call with their paint-related queries. Last year alone, the helpline handled over 50,000 queries and has, as the company says, been "quite useful". Further, the company has also launched Asian Paints Home Solutions, which, in addition to providing paints, also provides customers with painting services. As of now, Home Solutions operates from eight cities — Mumbai, Delhi, Chennai, Kolkata, Bangalore, Pune, Ahmedabad and Hyderabad. "Home Solutions has helped us build the Asian Paints brand further and provides good insight into what consumers require. It's not going to be a huge thing, but it has been extremely effective in informing us about customer aspirations and requirements," clarifies Murthy. Another step on the interactivity front is the updated internet website,

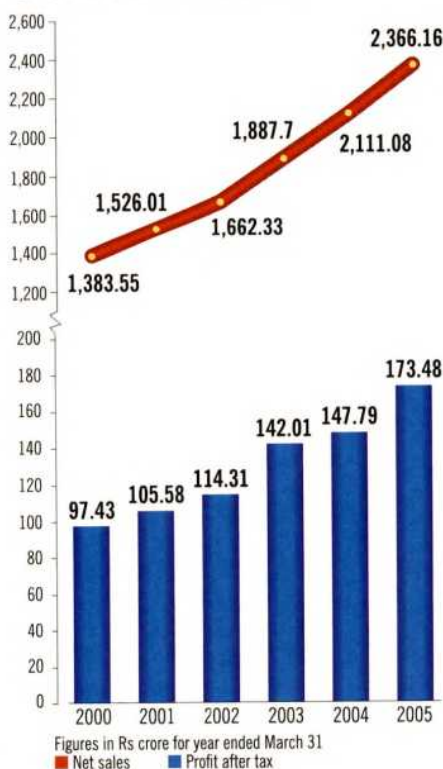
www.apaints.com, which has a number of interactive features for customers. These range from viewing the shade palette online to even viewing how a particular colour looks under different lighting conditions. In addition to these, there are regular and ongoing initiatives to increase interaction with suppliers.

Asian Paints made its international debut when it set up a plant in Fiji in 1978. Since then, it has grown considerably over the years. Today, it has 30 plants in 23 countries, which service markets in 65 countries. The international presence is fragmented under four brands—Berger International, Apco Coatings, SCIB and Asian Paints. The company is now in the process of implementing its ERP software from Microsoft Navision across all its plants. Jalaj Dani expects to commission this network by the end of the year. "This will result in consistent, timely and accurate information which will help our decision making process and improve overall controls," he says.

Dani adds that Asian Paints is focussing on emerging markets where the paints industry is expected to see higher volumes over the next few years. "We

have selected six markets that we will focus on for the next few years—Egypt, Bangladesh, Sri Lanka, United Arab Emirates, Thailand and Malaysia. But going global comes with its own pitfalls and problems, especially in the initial stages. "As a global business, you are exposed to changes in foreign currency valuations on a daily basis as well as lawsuits and contingent liabilities that come up. There are other issues as well, so you need to have better risk management systems in place. The way you deal with a certain situation back home may not work in another country. When you have products and people moving across geographies, this becomes extremely important. What you also need is better intelligence on the ground and a process to capture that. This is where the role of human resources becomes more important," says Dani. However, analysts are not totally convinced.

COLOUR-FAST





An Asian Paints-Berger outlet: Going for aquisition without diluting the promoter's equity

"The international business has not taken off the way it was expected to. It may be a little early in the day to comment, but as of now, only the West Asian operations look promising," says an analyst.

Asian Paints has aggressively pursued its international dream. Not surprisingly, integrating HR practices across the board poses significant challenges. The decision to carve out two new units from the existing decoratives unit was the most difficult. It meant the decoratives unit had to let go of senior and experienced staff; although they were moving within the company, this did become an issue at times. Ashwin Dani recollects how he had to step in and tell colleagues that just as they would have to come to terms with the situation if people wanted to quit the organisation, they should similarly be okay with people wanting to be part of the newly-formed business units. One of the biggest initiatives launched at that time was to put up people requirements on the intranet, so that employees across the world knew about openings available within Asian Paints. Another challenge was R&D. "There was just one R&D unit prior to the

restructuring, and now we required separate R&D cells for each of the three divisions. It wasn't easy to find qualified people to head these cells," says Dani.

In 1999, the company brought in 5S, and then Six Sigma three years ago in a bid to boost productivity.

The third business unit, the industrial paints division, was set up mainly to meet the increasing demand from this sector. "Industrial paints were always doing decent business, but they were never a priority. After the restructuring, a business unit was formed to focus on the increasing demand for industrial coatings as a result of the changes in the economy," says J.N. Shahani, Vice President, Industrial Paints & Phthalic. The product lines cover protective coatings, powder coatings, road markings and floor coatings. The company focussed mainly on protective and powder coatings in the initial stages, as it felt that

these areas were most likely to see maximum growth. "Protective and powder coatings form about 45-50 per cent of the total non-auto industrial paints market," explains Shahani.

The big event in this unit was the takeover of Hawcoplast, India's first

The company is focussing on emerging markets where the paints industry is expected to see higher volumes over the next few years

BT SPECIAL PERFORMANCE TRANSFORMATION

powder-coating company. This wasn't easy, says Ashwin Dani. "Hawcoplast was the first powder-coating unit in India. There is this attitude that most Indian entrepreneurs have—that unless there is some financial crisis, they don't want to sell businesses. It was difficult to convince the owners to sell; it took more than a year and we had to show them how they were destroying value in their company. Ultimately, though, we convinced them to sell the company to us. Today we are # 2 in powder coatings—we were nowhere on the scene before this takeover in 2001." But the unit had its share of teething problems. "We had to build the entire team up from scratch and it's not easy to find the right people in senior management and technical positions," he adds.

Over the years, the unit has expanded its product range to include floor coatings, which are expected to drive growth over the next few years. One reason for this is that with increased activity in the retail space, people are looking for options other than tiles, etc., for floors. Also, with many industries like pharma needing zero-dust environments, the specialty paints business is poised for take off.

The company has launched several retail initiatives over the last five years. One being Colour World, which has 5,300 outlets worldwide and offers 1,000 shades

Another sector the company is bullish on is road markings. "There are no organised players in this field; and the Golden Quadrilateral Project has seen demand from this sector go through the roof," says Shahani. "We have made an entry into this market and will now work to upgrade it."

In 2004-05, the division showed a 22 per cent year-on-year growth, and analysts say they are happy with the progress. "They have delivered on their projections. Though VAT did hit sales in the last quarter, we remain bullish on Asian Paints," says Harrish Zaveri, FICCI analyst at Edelweiss Capital.

The management is aware that it has to ensure that the gains arising from the new systems do

not erode over time. "We have worked hard to strengthen our quality systems and are constantly trying to upgrade these. We try to ensure that gains get embedded within the system," says Ashwin Dani. But he, too, admits that Asian Paints still has a long way to go. "We have just picked the low-hanging fruits. We have to aim much higher."

The goal has, thus, been set. The roadmap is also ready. It's now for the management to deliver.



Global story: The Asian Paints-Berger Plant in Ningbo, China

FIVE THINGS THAT CAN GO WRONG

- Regulatory issues may hamper its prospects
- Operating in multiple countries exposes it to currency fluctuation and political risks
- Creating a multi-cultural workforce from scratch is difficult
- Individual promoters have low holdings; this exposes company to takeover threat if one or more want to cash out
- Increased competition in home market could eat into margins and profits



UNESH GOSWAMI

INTERVIEW ASHWIN DANI/ VICE PRESIDENT AND MD/ ASIAN PAINTS

"We have always been strong, but we could have been stronger"

ASHWIN DANI, VICE CHAIRMAN AND MD, ASIAN PAINTS, spoke to Business Today about his company's transformation journey. Excerpts:

You decided to change the structure of the company in the late nineties. Why?

It started with us hiring the services of Booz Allen & Hamilton in early 1998. When we reviewed the performance of our company over the four years prior to that, we realised that we had not exploited our strength properly vis-a-vis our competitors. We realised

that we had not become as strong as we could have. Let me qualify that last statement: we have always been strong, but we could have been stronger. And if you see our track record from 1975 onwards, we have grown faster than our competitors.

But we had not done as well in curtailing costs as

we could have, so we did some serious introspection, and realised that we had missed out on certain opportunities. We also realised that if we did not take corrective action immediately, we may miss out on some more. The business environment in India was

"If we see new product opportunities in some part of the world where we do not yet have a footprint, we will develop new products for the market and launch it"

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becoming more competitive, and to survive and thrive in this, we would have to be on our toes and sharpen our performance in various areas. We were strong in house paints, but not really recognised as a strong industrial paints brand; so, if we wanted to cash in on some of these new growth opportunities, we would have to move our focus beyond domestic house paints. In 1997-98 we were losing money in these new segments, but those were the formative years and we were still on the learning curve. And we did succeed. But that was restricted to automotive coatings. There was also a good growth opportunity in high performance coatings. Berger India was the dominant player in this segment; we were insignificant at that time. Though we had a similar product catalogue, we had not done a good job of marketing it. It was not getting enough importance when it was part of the Decorative Business Unit, so we decided to create a separate business unit for it.

The international business unit is not been doing as well as expected. Why?

We have had an international presence since 1978 when we went to Fiji. That was our first overseas venture and since it did so well, we kept expanding in the South Pacific region. Also, we acquired a manufacturing unit in Sri Lanka after 1997. We also made an acquisition in Egypt and another small one in Fiji during this period. We were losing money in Australia earlier, but now, we are breaking even. Our acquisition drive overseas has paid off. The big

acquisition, of course, was Berger International. We are very clear that we are going to do all this without diluting the promoter's equity.

What were the internal issues involved in the restructuring process?

One of the issues was the technical input with respect to R&D. We had to have separate inputs for the industrial businesses and separate ones for the home and decorative units. These were all under one umbrella prior to 1997. When you want to have somebody heading the tech cell, you require a fairly senior man; we had to find senior technical people

who could do justice to the job and there is always a shortage of good technical people in the paints industry. This was one major challenge

There was a similar problem with the international business unit, although this came up a few years later. That business was initially part of the Decorative Business Unit, but once it grew to Rs 500 crore, we needed a senior technical person to head the R&D activity that would be required for the international markets. The kind of products the International Business Unit requires is different from those that the Decorative Business Unit requires.

We also had to set up separate supply chain systems, which meant setting up a whole new management team. It was virtually like running three subsidiaries and then merging the accounts of all three. Then, we had to ensure that there was a smooth transfer of information from one business unit



"We have had an international presence since 1978.

Our acquisition drive overseas has paid off. The big acquisition, of course, was Berger International"

to another. This was necessary to ensure that internal synergies were fully exploited. We also had to make sure that technology moved freely from one BU to another. Integration of all these services was a tremendous challenge.

What initiatives did you take at the organisational level to integrate the changes?

On the HR front, we posted ads internally on the intranet on positions that were available across countries; if anyone was interested in moving to another plant/country, he/she was free to do so. This was one of the biggest HR initiatives we had taken at that time. This resulted in a lot of people movement. At times, it wasn't easy handling expectations, as people suddenly had lots of opportunities to move globally, but within the company.

How do you ensure that the gains over the last few years are not lost over time?

Initially, we focussed on the low-hanging fruits. Now, having plucked those, we have to put in bigger efforts to get bigger gains. I think we still have a lot of ground to cover. We need to continue to have better integration among the BUS and, if anything, this will make the company stronger. And, if we see new product opportunities in some part of the world where we do not yet have a footprint, we will develop new products for that market and launch it. We will also derisk the investment by spreading our bets and launching it in other markets, including India.

On the technology front, you went in for SCM from i2 and ERP. How has it helped?

We have followed a very unconventional method. People first bring in ERP and then streamline the supply chain; we have done it the other way around. We felt that supply chain would give us faster benefits. There was also a little catch there. When we implemented i2, SAP wasn't ready with the supply chain engine yet. They came up with it two years later. But we got an assurance from i2 that once we implement ERP from SAP, they would help us integrate the two.

"Initially, we focussed on the low-hanging fruits. Now, having plucked those, we have to put in bigger efforts to get bigger gains. I think we still have a lot of ground to cover."

You also implemented 5S and Six Sigma. What sort of an impact did these have?

We implemented 5S in 1999 and brought in Six Sigma around three years ago. It brought a lot of discipline on the shop floor and really increased productivity. We could sweat fixed assets to a much larger extent—with-

out any substantial incremental investments. Thus, we could increase output substantially in relation to our net fixed assets. This resulted in a massive improvement in our working capital situation. In the paints industry, working capital is very crucial, and today our working capital management system is among the finest in the industry. We also tried to get more extended credit lines from our suppliers, so net working capital came down drastically. We brought inventory down substantially as well, and this freed a lot of money. Result: the company is virtually debt free today. Even after investing in ICI shares, we are virtually debt-free, so if a large acquisition comes along, we can borrow money. We are open to acquisitions both in India and abroad. But it should come at an appropriate time and at the right price.

What have you done to ensure that your plants are environment friendly?

We have minimised wastage thanks to increased productivity on the shop floor. We recirculate waste solvents and thereby reduced the load of the effluent treatment plant. All our plants have zero industrial wastage because of the effluent treatment facilities and the reverse osmosis systems. All our plants are not only ISO7000 but also ISO14000 certified. We have reached zero defect level.

What have been the key learnings along the way?

Irrespective of how well you do it, there is always scope for improvement, and one can never stop sharpening performance in any area of learning and industrial organisation. Be it R&D, manufacturing, supply chain or meeting customer demands, there is always scope for improvement. If we don't do it, then sooner or later, competition will force you to do it, so it's best if you do it willingly in today's competitive world. ■

ONGC

A PUBLIC SECTOR CASE STUDY

Subir Raha turned around a moribund oil exploration and production company everyone had written off. This is how he did it.

ASHISH GUPTA

CIRCA FEBRUARY 2001, ITS STOCK PRICE was trading at barely Rs 130; the morale of its workforce was at an all-time low—its Association of Scientific and Technical Officers passed a no-confidence motion against the board of directors; and international consulting firm, McKinsey & Company, hired to revamp the company, suggested closure in the next two years.

Circa November 2005, it was rated as Asia's best oil and gas company by *Global Finance*, a US magazine; the second biggest exploration and production company by Platts Energy Business Technology Survey 2004 and ranked 454th by revenues and 95th by profits in the *Fortune* 500 list of global corporations. And, it has just topped the *Business Today* 500 list for the second year running.

This, ladies and gentlemen, is the fairytale

turnaround story of India's most valuable and profitable company, Oil and Natural Gas Corporation (ONGC). Its market cap: Rs 1,74,612.75 crore (as on March 22, 2006); its net worth: Rs 94,944.28 crore (*BT* 500, December 4, 2005); and its net profits Rs 12,983.05 crore (for the year ended March 31, 2005). It has also established over six billion tonnes (BT) of in-place hydrocarbon reserves, with more than 320 discoveries of oil and gas.

And much of ONGC's success can be directly attributed directly to the 57-year-old Subir Raha's imaginative leadership. The first six months of his tenure (he took over as CMD in May 2001) was spent in brainstorming sessions with ONGC staffers, ranging from senior colleagues to line workers. The agenda: deciding on the company's priorities and looking at ways and means of ensuring survival in a fiercely competitive environment. Raha admits



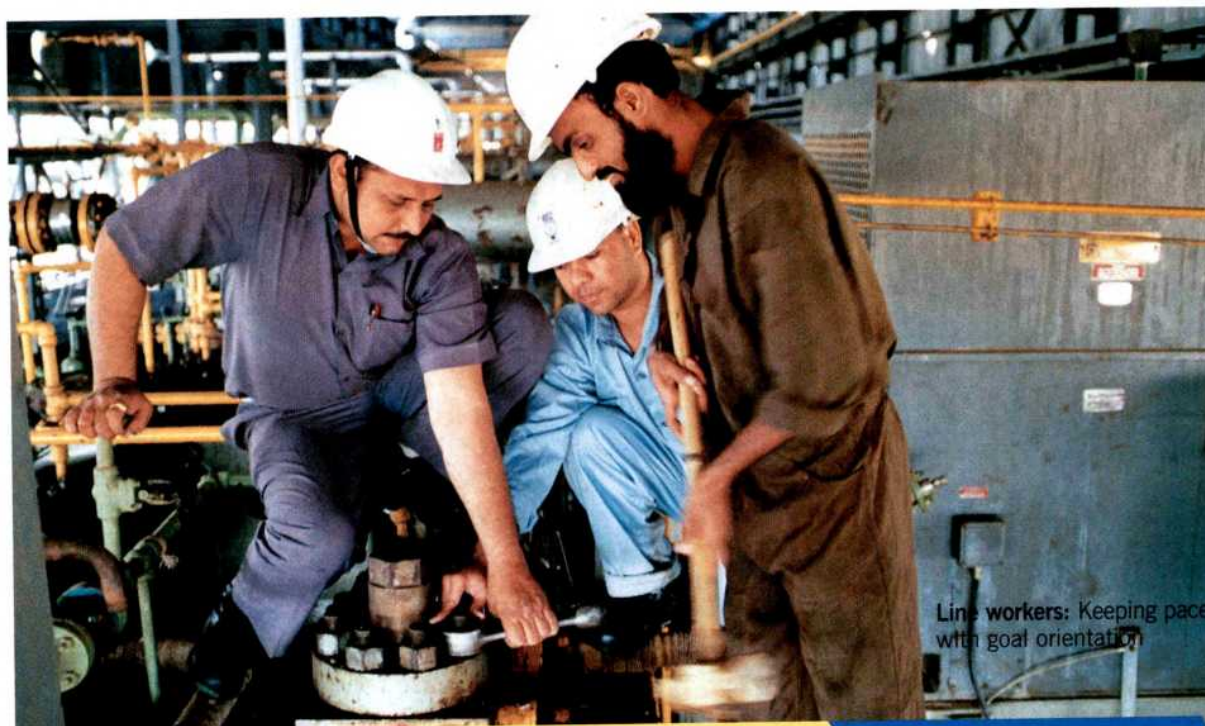
The value creators: Chairman and Managing Director Subir Raha (left) with Director (Finance) R.S. Sharma

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candidly: "ONGC had reached a stage where it could not afford to stagnate; it either had to grow or fall by the wayside."

So how did Raha and his team bring about this transformation at the exploration major? The management identified three core objectives, which it believed would help the company turn around and, by

2020, reach the league of the Exxon-Mobils and BP-Amcos of the world. The first goal was to double its reserves from 5.77 BT of oil and oil equivalent gas to 12 BT—the additional six BT coming from deep sea (4 BT), onshore and from oil assets abroad; the second goal was to enhance the recovery rate from 26 per cent to 40 per cent; the final goal was to source 20



Line workers: Keeping pace with goal orientation

THE DESIRED TRANSFORMATION

- Double reserves from 6.77 billion tonnes to 12 billion tonnes
- Enhance recovery levels from 28 per cent to 40 per cent
- Carve out a presence in both the upstream and downstream sectors
- Diversify into underground coal gasification, coal-bed methane and setting up special economic zones
- Redevelop Bombay High

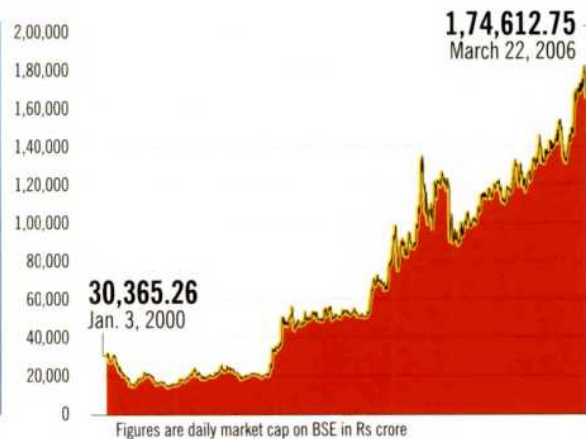
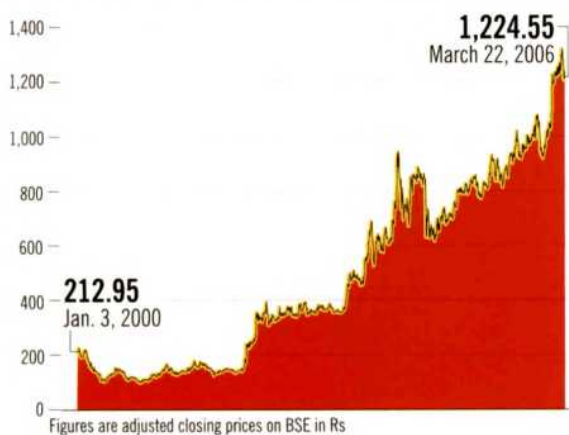
THE CHAPTERS OF THE CHANGE STORY

- Establish an additional six billion tonnes of reserves (oil and oil equivalent) by 2020
- Targeting 20 million tonnes of reserves from abroad
- Aims to become a \$50-billion (Rs 2,25,000-crore) company in the next five years
- Upgrading seismic data, drilling and production facilities
- Establish four billion tonnes of reserves from its deep water initiative

THE KEY INITIATIVES

- Corporate Rejuvenation Programme—a policy of corporate restructuring
- Well Flowing Well-making each oil well a profit centre
- Officers permitted to sanction projects worth Rs 25 crore compared to Rs 5 crore earlier
- Spending Rs 1,800 crore on upgrading machinery
- Opening a website to address all grievances of workers and suppliers

POWER PERFORMANCE



GRAPHICS BY PINAKI PAUL

million tonnes (MT) of oil and gas from foreign assets.

These targets, Raha feels, are clearly achievable, since the figures were arrived at after much deliberations and studies culled out from the corporation's own formidable database, international experience and on the basis of expert advice given by senior scientists.

Not content with this alone, Raha, an electronics and telecom engineer from Kolkata's Jadavpur University (Class of 1969), came up with a performance transformation programme, Corporate Rejuvenation Campaign, to revitalise the moribund ONGC. The idea was to transform ONGC from a slow-moving, procedure- and rule-bound organisation to a goal-oriented, accountable and responsive corporate entity.

Such a transformation was possible only if executives down the line were delegated greater powers and responsibilities. Thus, officers were empowered to sanction larger projects on their own—senior officers could sanction projects of up to Rs 25 crore, compared to Rs 5 crore earlier—without having to wait for approval from Dehradun (the company's headquarters). "While on the one hand it meant that officers had more authority to get their work done, it also meant that they could no longer hide their incompetence behind the cloak of procedural delays," says Raha.

But more importantly, the biggest challenge lay not in redrawing ONGC's corporate profile, but in

bringing about a change in the mindsets of its people and in introducing a different culture and work ethic in the organisation. That meant involving the people in the day-to-day working of the company, of making them feel an integral part of the organisation and in having complete transparency in the functioning of the corporation. "So we opened an internal website and a CMD's Forum, asking the workers for their suggestions and problems so that there was a line of communication between the ordinary worker and the Chief Executive of the company," he says.

This resulted in an avalanche of e-mails, 2,500 in the first three months, on a variety of issues. That euphoria has died down since; and the inbox receives about 10 mails per day now. The major gains: not only has it given the lowest worker a chance to be heard, but it also allowed internal vendors to air their grievances. "Today, if a worker feels his efficiency is getting affected as he does not have the right spanner, he writes to us," says Raha, explaining the success of his e-mail initiative.

Moreover, on August 14, 2002 on ONGC Day, the

CMD announced a new theme, "Well Flowing Well", to impress upon the organisation the importance of each oil well and the need to treat each well as a separate profit centre. Each well, after all, costs anywhere between Rs 5 crore and Rs 20 crore—similar to

The biggest challenge lay not in redrawing ONGC's corporate profile, but in bringing about a change in the mindsets of its people and introducing a different culture and work ethics

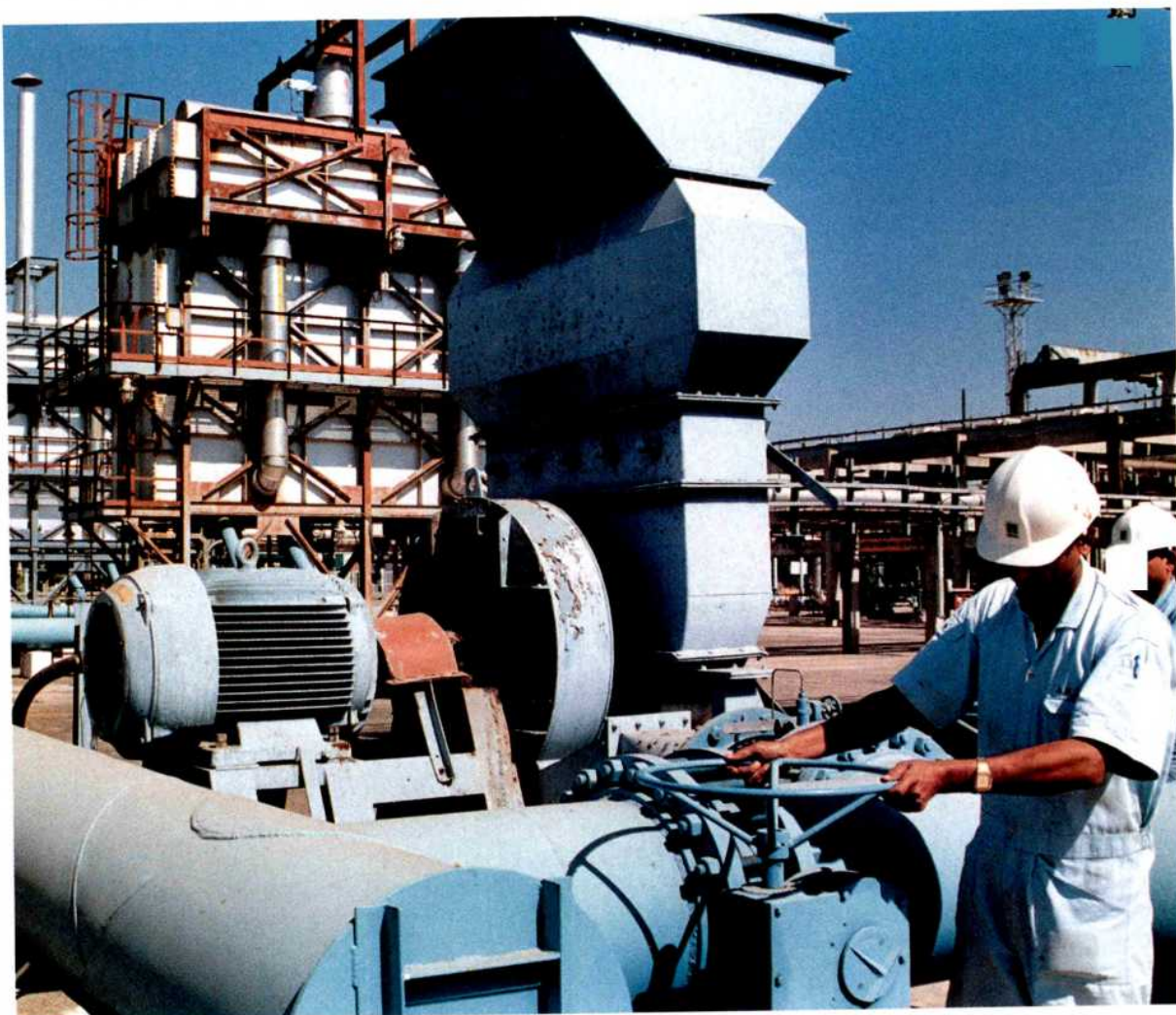
BT SPECIAL PERFORMANCE TRANSFORMATION

the cost of setting up a mid-size factory. Thus, if a well does not perform as efficiently as it should, it becomes a sub-par or even an idle investment. "For any oil company, the key challenge in production is to see that every well that has been drilled, whether it is for production, improved recovery or water injection, performs at top capacity," says Raha.

From the exploration point of view, the issue is to keep establishing more reserves than the company can produce to have a positive reserve accretion and, therefore, greater security of growth. To achieve these strategy objectives, Raha not only launched a massive programme to upgrade information technology and communications—the company's IT

backbone has been completely revamped—but is also spending Rs 1,800 crore on upgrading most of the machinery over the next three years. These include high-speed computers, advanced software, drilling rigs, etc. The idea was to use ONGC's massive cash balances to create assets. "Assetisation of funds is what this business is all about," informs Raha.

Financial re-engineering and cash planning, too, was restructured. The company managed to reduce its corporate tax by about Rs 700 crore by depositing Rs 1,800 crore in the State Bank of India Site Restoration Fund, and saved another Rs 300 crore by way of interest by pre-paying foreign currency loans taken from the International Monetary Fund and



Right spanner: The key challenge in production is to perform at top capacity

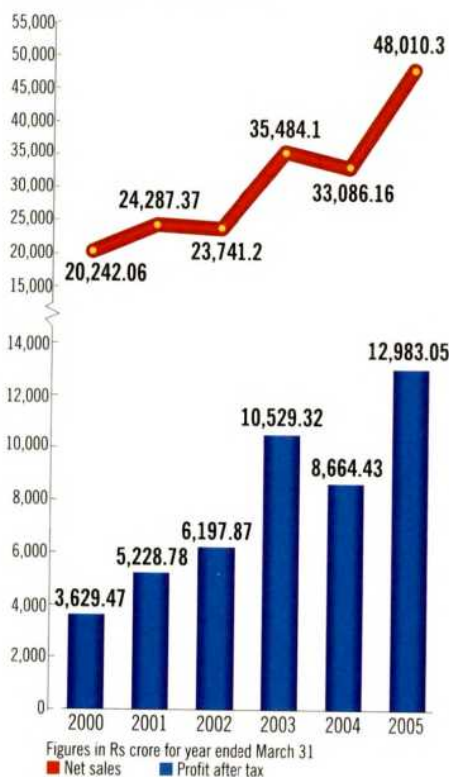
the World Bank. Raha points out: "By focussing on tax management, pre-payment of loans and cost-cutting exercise, we were able to save Rs 1,000 crore on taxes payment alone." As a result of this initiative, ONGC today is totally debt-free.

Again, to shore up its bottom line, Raha launched a massive programme to redevelop the Bombay High in two phases, costing the company Rs 8,129 crore. Crude production had declined from 30.35 MT in 1990-91 to 26.18 MT in 1999-2000, despite the extravagant exploitation of Bombay High, which was being mined far in excess of permissible limits. Compounding the problem was a virtual halt to its exploration activities, its bread and butter business, thereby affecting its long-term prospects. No wonder then, the chorus for its privatisation reached a crescendo in the late 1990s.

The first phase of the transformation programme was launched in January 2001 and the second in October 2001. These are already bearing fruit. In fact, in the second week of March 2005, Bombay High produced a record-breaking 259,000 barrels of crude per day, the highest in the last five years. So, finally, it seems that Bombay High has turned the corner and is on a growth trajectory once again. The company has now revised its output target for its crown jewel: one MT per month. And in the next couple of years, Bombay High output is expected to easily touch 1.25 MT per month, because of advances in drilling technology.

But of much greater importance is the company's aggressive strategy to build up international oil and gas reserves through its wholly-owned subsidiary, ONGC Videsh Limited (OVL). It is already engaged in the exploration, development and production of crude oil and natural gas in eight foreign countries—Iraq, Iran, Sudan, Vietnam, Myanmar, Syria, Libya and Russia—through OVL; today it has 18 properties in 14 countries. That's a huge leap of faith for a company that

IN TOP GEAR



had only one property in Vietnam in 2001 and has catapulted to the position of India's biggest multinational. It's investment in foreign fields: \$4.3 billion (Rs 19,350 crore) till April 2005. Raha points out: "ONGC has ventured into a difficult and hostile environment, both politically and geographically, where exploration, production and development will be more technologically challenging and expensive."

Its latest conquest: a second offshore exploration block in Vietnam's Phu Khanh Basin with estimated in-house reserves of 190 MT. With this block, OVL has become an operator in five blocks in four countries. The others are Farsi in Iran, Najweet Najeem in Qatar, Block 127 and 128 in Vietnam and in the onshore Block-81-1 in Libya. Again, while crude production from Sudan has already started flowing—75,000 barrels of oil

per day—production of 50,000 barrels of oil per day from Sakhalin will start from the first quarter of 2006. And its success is also being reflected in its balance sheet. The company declared a maiden dividend of 35 per cent for 2004-05. The payout: Rs 105 crore. It has also recently declared an interim dividend of 250 per cent for the current fiscal.

There have been other acquisitions too. By investing Rs 38.34 crore in acquiring a 23-per cent equity stake in Petronet MHB Limited, it has become a part owner and operator of the Mangalore-Hassan-Bangalore pipeline. This investment has ensured that its gas supplies find an easy market in and around Bangalore. If liquefied natural gas (LNG) is to be the fuel of the future, then ONGC does not want to lose out on the opportunity. It has already taken 12.5 per cent equity in Petronet LNG, a joint venture company that will build and operate an LNG terminal in Dahej.

Again, Raha's long-term desire of converting ONGC into a vertically integrated company present along the entire petroleum value chain seems to be finally taking shape. It acquired a 51 per cent stake in

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Mangalore Refinery and Petrochemicals Limited (MRPL) for Rs 660 crore in March 2003 and has since raised it to 71.6 per cent. It was then on the verge of being referred to the Board for Industrial and Financial Reconstruction, but has been turned around. MRPL processed 11.85 million metric tonnes (MMT) of crude in 2004-05, against a capacity of 9.69 MMT, a capacity utilisation of 122 per cent. And plans are afoot to first increase its capacity first to 15 MMT in the next two to three years and then to 30 MMT. Being an exploration and production company, ONGC enjoys the good fortune of being able to provide crude to MRPL at arms length price and also sell the products through its own petrol pumps. All this provides the company a huge opportunity to make profits. Says Raha: "Integration along the hydrocarbon value chain is not a matter of choice for a company with global footprint; it is an imperative to squeeze the last possible cent from every molecule."

His other major successes: getting government approvals for marketing of LNG, superior kerosene oil and aviation turbine fuel. His explanation for these

related diversifications: no exploration and production company can remain dependent on a single cycle following the withdrawal of governmental protection to state-owned oil enterprises. "It has to become a part of the crude cycle, refining cycle, product cycle and every other cycle to tide over any downturn and mitigate risks." It also helps maintain an assured cash flow for investments in its core business of exploration and production since all investment risks have to be taken on the company's balance sheet.

Then there are other diversifications too. It is also entering into new and "unrelated activities" such as underground coal gasification, coal bed methane mining, setting

up LNG complexes, special economic zones, power plants and petrochemical projects. Raha sums up his transformation strategy quite simply. "Concentrate on your core activities, minimise risks by not putting all your eggs into one basket and last but not least, get into areas where the future is bright." But as many a CEO around the will confess, putting such visions into action is the difficult part.

From only one overseas asset in Vietnam in 2001, ONGC today has 18 properties in 14 countries with an investment of over Rs 20,000 crore, making it India's biggest MNC



R&D: Squeezing the last possible cent from every molecule

FIVE THINGS THAT CAN GO WRONG

- Despite massive investments the company may fail to get a major breakthrough
- Unstable political conditions abroad can hit OVL's profits
- A sudden fall in international crude prices could hit the company's bottom line
- Fire or accident at Bombay High could hurt ONGC's projects
- Government's interference in day-to-day activities can derail ONGC's plans



VIVAN MEHRA

INTERVIEW SUBIR RAHA/ CEO/ ONGC

"There is resistance to any change, but a consistent and business-like approach helps in containing it"

ONGC CHAIRMAN & MANAGING DIRECTOR, Subir Raha took time out of his hectic schedule and spoke to Business Today's Ashish Gupta on the performance transformation underway at his company. Excerpts:

What was the 'case for change' in your organisation?
There was a strong case for change in ONGC around the time I joined. The company's share was trading at Rs 130. Internationally reputed management consultant McKinsey had advised

"We focussed on augmenting domestic output by adopting best-in-class technology and on adding overseas acreage. We have not wavered from this focus"

the Indian government to close down ONGC in the next two-three years. The Association of Scientific Officers (ASTO) of ONGC had passed a no-confidence motion against the board of directors. Production-wise, the output from the matured fields of ONGC was fast diminishing. And the morale of the whole organisation was at an all-time low.

What was the aspiration for the change you wanted to achieve? Have your aspirations changed at any stage since the outset? How and why?

As the flagship national oil company, our

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aspiration is to secure oil security for India. The production from domestic fields was dwindling. ONGC had only one overseas property in Vietnam. We focussed on augmenting domestic production by adopting best-in-class technology and on adding overseas acreage. We have not wavered from this focus.

Could you elaborate on the nature of the transformation programme underway?

A Corporate Rejuvenation Campaign (CRC) was rolled out across ONGC in October 2001. In CRC, a clear path has been laid for the people, policies and structure of the organisation to support the corporate vision. The highlight of the new culture is empowerment to facilitate decision-making. The other cultural changes brought in are assetising money to bring in best-in-class technology and infrastructure in the core business areas and monetising assets to take out the best possible value out of each hydrocarbon molecule. Coming to specifics, we have bridged the technology gap, bringing in best-in-class technology and infrastructure. Secondly, we have aggressively focussed on exploration and production, and are currently spending around \$1 billion (Rs 4,500 crore) every year on exploration in India—one of the highest in the world. ONGC's deep-water exploration campaign—Sagar Samm-riddhi—is the biggest one globally by a single operator.

As you look to transform leadership in ONGC, what changes have you made in your style for others to see? What influences you to adopt

this style? And is this style working well for you?

As I said, the main thrust is on becoming a best-in-class business. This requires a mindset change that is necessary for taking calculated risks in business. The main influence is corporate governance. The purpose of any business is to create wealth for the stakeholders. And business leadership must facilitate that. Talking of styles, I feel that an eye for detail in every sphere of corporate activity helps in pushing up efficiency and effectiveness. The leader has to facilitate change continuously, as *status quo* spells death. Corporate growth with ethics and transparency should be both the message and the result.

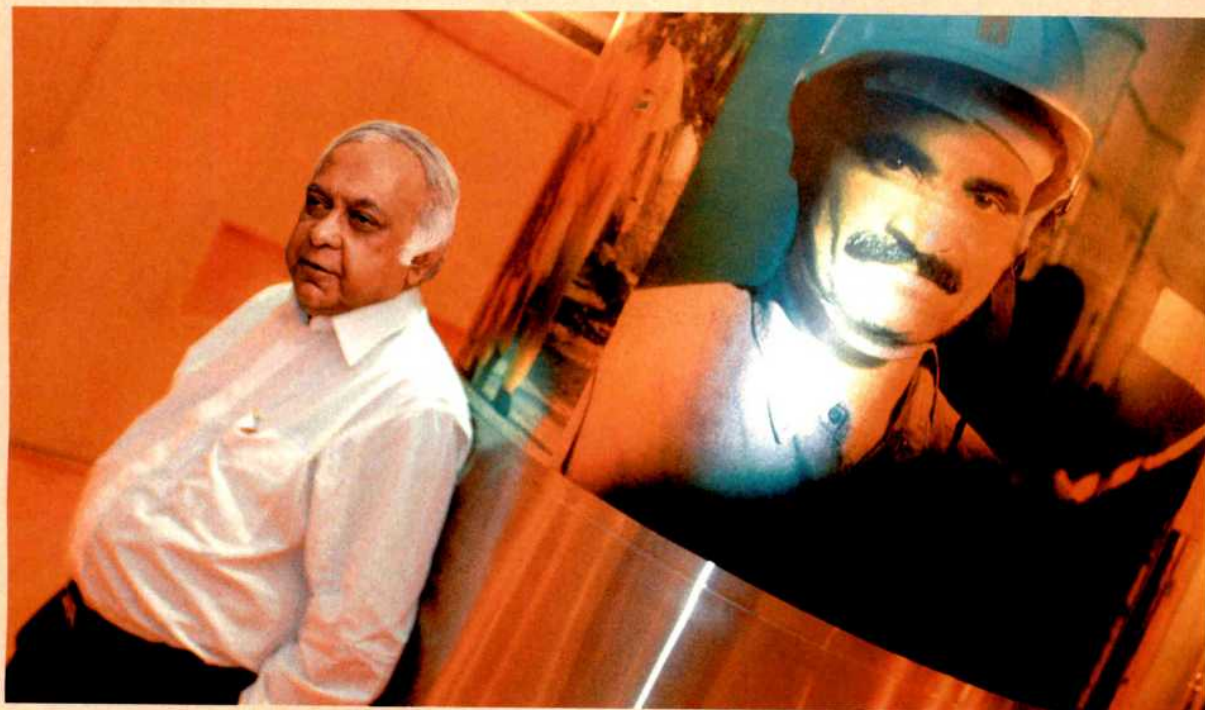


"An eye for detail helps in pushing up efficiency and effectiveness. The leader has to facilitate change continuously, as *status quo* spells death"

Do you see a gap in the leadership capacity over the next five-10 years? Are you leveraging the transformation to address this gap? How did you overcome blockers, if any? Succession planning is now a key HRD exercise, as it churns out effective leaders for tomorrow. ONGC, now, has a well-defined innovative process where the future leaders get groomed in the various facets of the business. There is resistance to any change, but a consistent and business-like approach helps in containing the resistance.

As part of the transformation effort, has your leadership team changed the way it works or behaves in any way during this period?

Thanks to the effort over the last four years, ONGC now has one of the youngest boards in the public sector, with the average age of directors at around 54 years. They are knowledgeable and committed to performance and integrity.



SHOME BASU

What are the key attributes that you would like to see in your future leaders?

Public sector leaders must keep the national interest uppermost, which is the prime stakeholder interest in corporate governance terms.

What initiatives have you taken to ensure that the changes stick over time? Please elucidate.

The change process is reinforced by consistency and transparency. Waves of change have taken place in ONGC over the last four years. Some have already delivered the desired results; some will do so in the years to come. Once people see the benefits of any change exercise, there is natural motivation to institutionalise the change. We have integrated. We have grown from a \$4-billion (Rs 18,800-crore then) company in 2001 to around \$15-billion (Rs 67,500 crore) now. We have taken over MRPL and turned it around as the best refinery in the country. From only one overseas property in 2001 to around 18 properties today and counting, the ONGC Group is the biggest Indian transnational. The effects of

"There is no short-cut to success. It is easy to make cosmetic changes and go to town with short-term, illusory results. In the process you weaken the value system"

change are for everybody to see. It is difficult for anyone to go back on the reforms undertaken in the last four years.

How much of your change programme focuses in immediate performance improvement initiatives

versus long-term shifts in the underlying 'health of the organisation'? How do you decide on your priorities?

In business, nothing succeeds like success. You cannot have a lean day today with a promise of a brighter canvas tomorrow. Performance has to be directly proportional to the initiatives today and tomorrow. ONGC is today India's most valuable corporation—the pride of every Indian, not only of ONGCians. There is no short-cut to success. It is easy to make cosmetic changes and go to town with short-term, illusory results. In the process, you weaken the corporate value system. We have to respond correctly and quickly in a winning way. This is the challenge, rather the opportunity for all ONGCians. This is the only way to win laurels. ■

THE VIEW FROM THE BOARDROOM

A McKinsey survey of directors shows that they're ready to track corporate performances more keenly

ROBERT F FELTON AND PAMELA KEENAN FRITZ

NEW ENERGY IS STIRRING IN corporate boards. After years when accounting scandals and charges of inadequate governance put them on the defensive, they are looking to step up their engagement with the core areas of corporate performance and value creation. The principal finding of a McKinsey Quarterly survey of more than 1,000 directors is that having focussed for a time on accounting compliance issues, they are now determined to play an active role in setting the strategy, assessing the risks, developing the leaders, and monitoring the long-term health of their companies.

At one level, our survey underlines the way the US Sarbanes-Oxley Act is holding boards—not only in the United States, but also around the world—more responsible for meeting high standards in reporting and controlling the financial affairs of their companies. Yet, the implications for governance are far reaching. To achieve as much involvement as directors say they want, they will have to use their time in meetings more effectively and develop a new understanding of their roles and responsibilities; otherwise, they will give management the impression that they intend to take on day-to-day roles. Moreover, the composition and culture of boards, as well as the agendas of board meetings, will require fresh thinking.

A changing role

Directors want to be more actively involved in three areas: what we call a company's health (its ability to survive and develop over the longer term) and its short-term financial performance, its strategy and assessment of risk, and its leadership.

Performance and health

Although the survey shows that directors focus primarily on financial matters reflecting short-term corporate performance, they wish to expand their reach into issues that shed light on the longer-term health of their companies. Indeed, 70 per cent of the directors want to know more about customers, competitors, suppliers, the likes and dislikes of consumers, market share, brand strength, levels of satisfaction with products, and so forth. Upward of half want to know more about the state of the organisation, including the skills and capabilities needed to realise the corporate business strategy, both now and in the future. Two in five respondents are eager for insights into external networks, such as the nature and level of regulatory and government risk, as well as public, media, and community attitudes toward the business.

But directors don't want to spend significantly less time on their current activities. The main exceptions are auditing and compliance and the compensation of top management. About one-fifth of the directors



ILLUSTRATION BY RAMEN SARKAR

Corporate boards are now determined to play an active role in **setting** the strategy of their companies

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feel that they spend too much time on those issues.

To understand the long-term health of a company, directors should monitor not only its current financials but also a broader range of indicators: market performance, network positioning, organisational performance, and operational performance. Risk—including credit, market, regulatory, organisational, and operational risk—plays an important part in each dimension. Without this knowledge, directors will have only a partial understanding of a company.

Developing the right perspective on the balance between short- and long-term performance is important. The board of one leading North American industrial company, for instance, focussed on its excellent quarterly financial figures. The company's performance appeared to be strong: its margins and return on capital were rising and costs were falling. Yet capital investment was falling as well, the value of the company's brands was eroding, a major product recall was under way, and the morale of employees had sunk so low that 20 per cent of them acknowledged getting treatment for stress. Had the board and management focussed on longer-term health indicators, these uncomfortable facts would have received scrutiny.

In seeking to balance short- and long-term performance, boards might start by agreeing on a core set of metrics tailored to the specifics of a company's industry, maturity, culture, and current situation. For example, two oil companies—one focussing on operational efficiency; the other on exploration—might choose quite different metrics. Similarly, companies pursuing a fast turnaround might, understandably, be less focussed on their long-term health.

For many companies,

monitoring a robust set of metrics will probably involve little additional work: those the board might want are likely to be a subset of the data already available to management. If they are not, it may take time to identify them, but companies should plug such a serious gap anyway to ensure the long-term health of the business.

Strategy and risk

More than 75 per cent of the directors say that they want to spend more time on strategy and risk. This refocussing seems to reflect three forces at work among boards: a shortfall of knowledge about the current and future strategy of their companies, a certain lack of confidence in management, and a desire to assume a more active overall role.

Surprisingly, more than a quarter of the directors have, at best, a limited understanding of the current strategy of their companies. Only 11 per cent claim to have a complete understanding. More than half say

that they have a limited or no clear sense of their companies' prospects five to 10 years down the road. Only 4 per cent say that they fully understand their companies' long-term position. More than half indicate that they have little or no understanding of the five to 10 key initiatives that their companies need in order to secure the long-term future.

Similar gaps emerged on the question of risk. Only 11 per cent of the directors claim to have a complete understanding of the risks their companies currently bear, while 23 per cent have a limited understanding or none. When it comes to long-term risks, just 8 per cent claim to have a complete understanding, and 37 per cent say they have little or none. Likewise, since more than half of the directors

In seeking a balance, boards might start by agreeing on a **core set of metrics** tailored to the specifics of a company's industry, maturity, culture and current situation



admit that they have no way of tracking changes in risks over time, boards are vulnerable to unforeseen shifts.

The survey also highlighted a lack of confidence in executives. Only 8 per cent of the directors feel that management fully understands the key initiatives required by strategies for the future, while 38 per cent say that it has, at most, a limited understanding.

If directors want to become more involved in developing strategy and assessing risk, they will have to start by working with management to grasp the current strategic position more clearly. In turn, management should draw up and propose a number of different long-term strategies. Boards should test and challenge them before choosing, with management, the most appropriate ones.

Management could then develop a detailed plan that the directors should also test and challenge before it receives final approval. In our experience, the process typically unfolds over several board meetings. One key point: board members should have enough time to probe strategic issues—does the company really have the ability to execute in a particular area, for example, and has it scoped out ways of gaining access to the markets it wants to enter?

Finally, the board can play an important role in tracking the progress of the plan and changes in any risks it involves. We find that a board works best on this charge when it devotes its limited time to five or so key strategic initiatives, tracking their progress and any change in the accompanying risks. Management, by contrast, must deal with all aspects of the strategic plan. Of course,

Directors Want To Know

% of respondents

As a director, I would like to know more about the following areas pertaining to the performance and long-term health of my company:



*Earning before interest, taxes, depreciation, and amortisation

Source: Jan 2005 McKinsey Quarterly survey of 1,016 corporate directors

GRAPHICS BY KULDEEP

once accepted, the strategy will evolve over time and require an ongoing dialogue between the board and management.

To see how these ideas work in the real world, consider the story of a leading North American industrial company that repositioned itself in a major turnaround. The company had been far from world class in any area, from product development to operating margins; focussed too much on the US market; and lacked significant service revenues and international experience.

Yet management, convinced that this \$5 billion Rs 22,500 crore business could be a world leader in its industry segment, joined with the board to develop a strategy that highlighted five initiatives: developing

low-cost operations, building operations in Europe and Asia so that half of all revenue would come from outside the United States, creating a strong M&A capability, forging a large service component, and shaping an efficient global organisation with appropriate skills and leadership.

If directors want to become more involved in strategy they will have to work with management to grasp the current strategic position more clearly

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The board, assisted by management, focussed on monitoring these initiatives. Its role in helping to identify and articulate them and in tracking their progress and changes in the risks they involved was crucial. With strong support from the board, management succeeded in driving the long-term strategy of the business while allocating expenditures in a way that adequately maintained its short-term financial performance.

Leadership

Most directors, as our survey indicates, want to devote more attention to developing the talents and skills of the people who work for their companies. That interest isn't limited to hiring and developing the CEO; it extends to the top management team and even to the broader company.

Directors already appear to be taking the lead in CEO successions, to judge by the 41 per cent who say that they and their colleagues on the board led the most recent CEO search.

That is good news. As former Sara Lee Corporation CEO John Bryan commented, "the most significant task for the board is to decide who gets 'to run the place.'" This responsibility is particularly important today: research shows that 71 per cent of all US CEOs leave their posts involuntarily. Leaving the succession to the incumbent CEO is therefore a high risk strategy.

The board's involvement in the process does not, however, guarantee a favourable outcome. In our survey, nearly one quarter of the directors report that the most recent CEO succession at their companies had failed. When we probed for the reasons, the response was intriguing.

According to the directors, CEO successions that work well and those that don't can be explained, in many cases, by the presence or absence of the same things: alignment between the board and the CEO on the company's strategy and future direction; finding a CEO with sufficient drive, energy, and ambition; the CEO's honesty and integrity; and a core skill set that includes investor relations and M&A. The absence of appropriate core skills is the most important factor in abortive successions, but their presence is less important in good ones.

Building these insights into succession plans can help boards to improve the odds. The essential first step, before candidates begin to appear, is for the directors as a group to agree on the professional skills and personal characteristics that match the company's strategy and culture. Once the board has decided which core skills and qualities are needed, it should ask the incumbent CEO for a list of internal candidates and ensure that they get regular exposure

to the directors. In parallel, the directors should develop their own list of external prospects, bearing in mind that while external hires often appear more attractive, the fit with the company's business strategy and culture may be less good.

The next stage is for the directors to evaluate candidates against the agreed upon criteria in particular, by probing into their views about the company's strategy and future direction. Alignment between the board and the CEO on these issues is crucial to success, and its absence leads to trouble. After a thorough discussion, the board is then ready to choose a new CEO. The full process can take time: according to outside observers, GE's board and CEO, for example, identified the attributes they wanted from the next CEO six years before Jeffrey Immelt

The absence of appropriate core skills is the most important factor in abortive successions, but their presence is less important in good ones



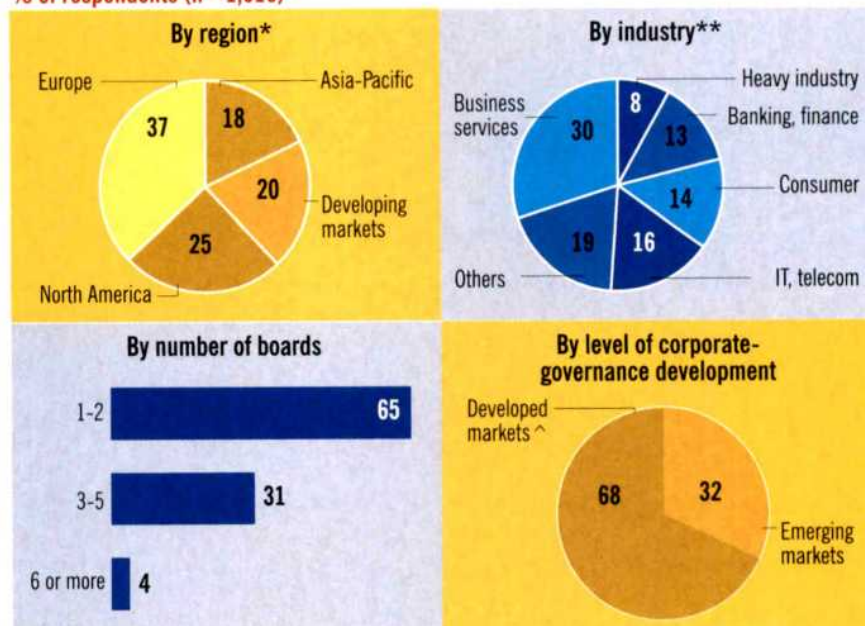
replaced Jack Welch. This approach gave the board enough time to assess the skills of the candidates at running their businesses, developing strategies, and managing external affairs. A corporate succession is no one off event; boards should focus on it continually, since the average length of a CEO's tenure goes on trending downward. As a new CEO takes office, the board should begin looking for a worthy successor.

And the process doesn't end with the selection. As one chairman observed, "You don't just hand (the new CEO) the keys and say 'call us in June.'" The board must be substantially involved in coaching the candidate it chooses, especially in the first months. Finally, it has to agree on how it will evaluate the CEO going forward.

In practice, this kind of involvement seems to be rare. Our survey showed that more than 50 per cent of boards have little or no formal process for evaluating the performance of CEOs, despite the huge responsibility entrusted to them. Boards that do tend to focus on short-term business goals, which, according to the directors, account for the largest part of the assessment: 35 per cent. Longer-term goals play a smaller role, as do other metrics, such as the ability to lead people and manage stakeholders, as well as professional ethical behaviour. The short-term bias is even more pronounced in the realm of CEO compensation: twice

About The Research

% of respondents (n=1,016)



*North America: Bermuda, Canada, and United States; Asia-Pacific: Australia, Hong Kong, Japan, New Zealand, Singapore, South Korea, and Taiwan

**Banking, finance: asset management, banking, financial services, insurance, private equity; business services: construction, consultancy, engineering, legal, real-estate management; consumer: agriculture, consumer packaged goods, healthcare, media/entertainment, pharmaceuticals, retail, travel/logistics; heavy industry: automotive, chemicals, manufacturing, metals/mining; IT, telecom: computers and technology, IT services, software, telecommunications; and others: academia, nonprofits, public sector, among others

^ Developed markets: Australia, Canada, European Union (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, and United Kingdom) New Zealand, Norway, Singapore, United States

Source: Jan 2005 McKinsey Quarterly survey of 1,016 corporate directors

as many directors say that short-term factors are the main underpinnings of their decisions than rely primarily on long-term factors.

Fortunately, directors are keen to change this mindset. When they were asked how the CEO's performance should be measured, long-term goals out-

ranked short-term goals, and leadership too was more important than it is in today's actual succession process. Directors apparently know that they should evaluate the CEO's ability to promote the long-term health of the company and not just its recent financial results.

The board must be involved in coaching the candidate it chooses, especially in the first months. It will have to agree on how it will evaluate the CEO going forward

More Time, Please

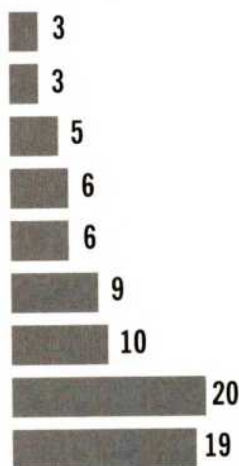
% of respondents*

How would you change the amount of time your board is spending on addressing the following issues?

Issues on which directors want to spend more time...



...and less



■ 25% more time ■ 50% more time ■ 100%+ more time ■ 25-75% less time

*Figures do not sum to 100%, because respondent who don't want to change the amount of time they spend on these activities are not shown

^ Figures do not sum to total, because of rounding

Source: Jan 2005 McKinsey Quarterly survey of 1,016 corporate directors

An active evaluation of the CEO has an added benefit: it prepares the board for the next succession process and forces directors to think about important issues and skills. Many directors have little or no experience selecting a CEO. Their involvement in rigorous annual evaluations will leave them better prepared to judge candidates when the time comes.

The selection and evaluation of a CEO isn't the board's only human resources task. Our survey showed that more than 60 per cent of the directors are also eager to spend more time developing and evaluating top

**Companies often need
"quick-fix" responses
to shortages of talent and
skills shortages, which can
be costly if labour markets
tighten suddenly**



management and that 78 per cent want to spend more time developing the skills and capabilities of the company as a whole.

Directors apparently know that they should evaluate the CEO's ability to promote the company's long-term health, not just recent results finding augurs well for the future. Although talents, skills, and capabilities play a crucial role in helping a business make good on its strategy, in our experience management teams and boards often overlook the importance of assessing them and spotting the gaps. As a result, companies often need "quick-fix" responses to shortages of talent and skills shortages that often result from poor planning, which can be costly if labour markets tighten suddenly. One large industrial company based in Asia, for example, identified a need for 670 managers, in addition to its current roster of 960, to meet the challenges resulting from the introduction of a new strategy. But when the company assessed its current managers, only 150 of them turned out to have the right skills. The resulting gap of 1,480 managers was significant enough to raise questions about the viability of the company's new course.

Early on, boards should recognise and discuss any new strategy's ramifications for talent and

skills. Directors can not only contribute their own experiences but also provide a longer-term perspective that challenges management to think about the sustainability of the company's recruitment programme.

Wider implications for the board

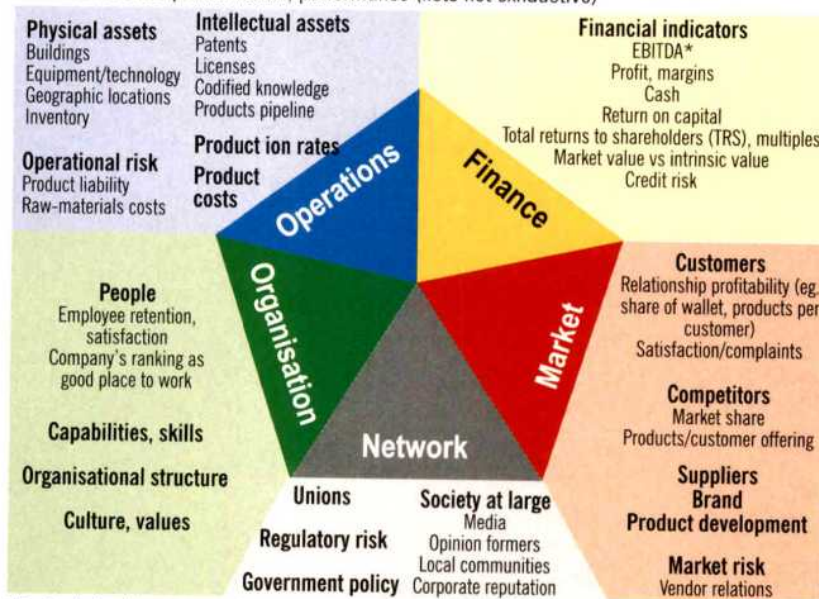
The survey results show clearly that boards want to engage more actively with management teams. Such a relationship can prove fruitful, but it will also be more complex than the present one. Making it work will require effort from both sides.

First, to cover this wider range of issues, boards will have to become more efficient, particularly since their time has already been stretched in recent years: the average commitment of a director of a US listed company increased from 13 hours a month in 2001 to 19 hours in 2003 (and then fell to 18 hours in 2004), according to a 2004 Korn/Ferry survey. Boards can conduct their meetings more efficiently if the directors receive clear, concise, and focussed information in a regular format, but nearly a third of our respondents say that the information they receive is formatted inconsistently from meeting to meeting. Eighteen per cent feel they receive too much information. Second, directors and executives should understand when and how a board's role changes. Above all, both sides must know whether the changes mean that management can or can't expect the board to become involved with a particular issue.

The world of private equity offers a glimpse of the new role that corporate boards could play and of the payoffs that might

Five Ways To Thrive

Dimensions of corporate health, performance (lists not exhaustive)

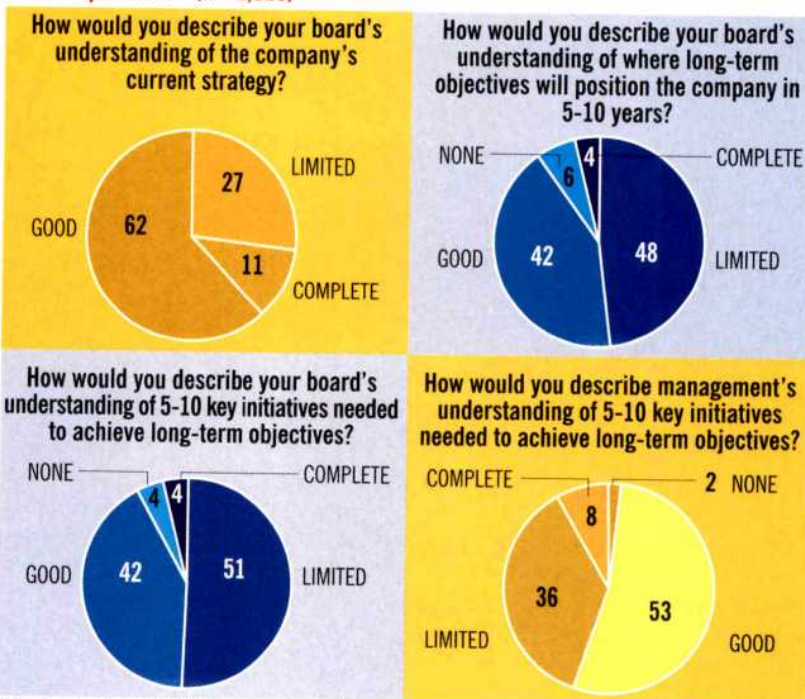


*Earning before interest, taxes, depreciation, and amortisation

Source: Jan 2005 McKinsey Quarterly survey of 1,016 corporate directors

Troubling

% of respondents* (n=1,016)



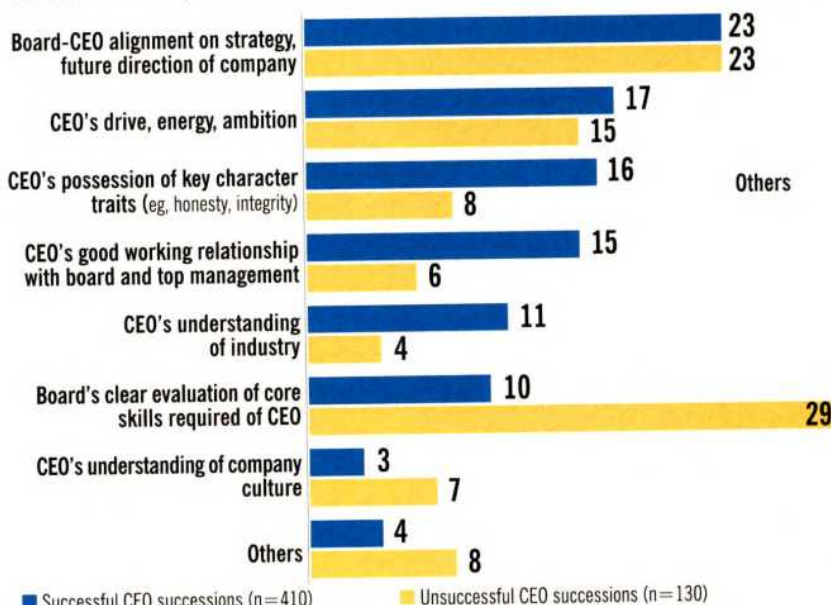
*Figures do not sum to 100%, because of rounding.

Source: Jan. 2005 McKinsey Quarterly survey of 1,016 corporate directors

Succession Stories

% of respondents*

For CEO succession, what was the most important consideration leading to success or failure?

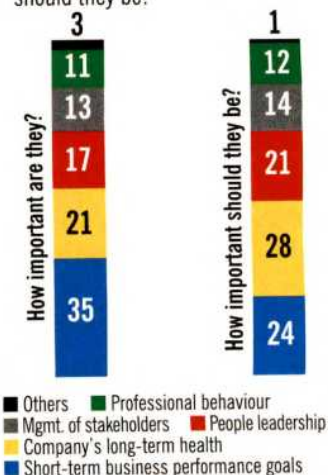


*Figures do not sum to 100%, because of rounding

A Willingness To Change

Median of all respondents, %

On a percentage basis, how important is each of the following factors when you evaluate your CEO's performance? How important should they be?



Source: Jan 2005 McKinsey Quarterly survey of 1,016 corporate directors

accrue to shareholders. Research indicates that partners in the highest performing private equity funds often spend 15 days a month with a company during the first 100 days after gaining control of it, to assess its management, pull together a strategy, and set appropriate performance metrics. Only after the end of this initial burst of activity will the partners' involvement fall back to around 2 days a month—oddly enough, about the same amount of time that directors of public companies now devote to them. Important differences obviously separate private buyouts from the governance of public companies, but investing time early on to develop a value creation strategy will probably serve boards well anyway. Boards might consider ways of using this upfront time to implement their plans, which they could then monitor with about the same level of effort

they now devote to that task.

Corporate boards seem eager to shake off the perception that they are lethargic. They have responded satisfactorily to the call for higher standards

Corporate boards seem eager to shake off the perception that they are defensive and lethargic. So far they have responded satisfactorily to the call for higher standards and strong compliance with the new accounting rules. Now they apparently want to become more active in core areas of the companies they govern. Boards and management alike can benefit from such a new relationship, but only if both understand its complexity and mitigate the tensions it is sure to create. ■

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FOR MANAGING TOMORROW

THE BIGGER PICTURE

India Inc is ready for a new transformation

ARNAB MITRA

THERE IS OPTIMISM IN THE air. The country has, for the first time, recorded a growth in gross domestic product of more than 8 per cent. The stock markets are at record highs on the back of a fundamentally strong showing by the corporate sector, and India Inc is no longer scared to facing up to foreign competition. The late Aditya Vikram Birla had once famously declared: "Let us not be scared of foreign competition, let the foreign competition be scared of us." Almost a decade later, those words are ringing true. Today, more and more Indian companies—even smaller ones—are venturing abroad, buying up companies, mines and brands in developed countries. Made in India components are also increasingly finding acceptability among Fortune 500 and other global companies.

What a transformation this is from the times barely a decade-and-a-half ago when India was considered the sick man of Asia. But one only has to look a little deeper to realise that the transformation processes described in the preceding pages can—and, in India's case, do—apply to countries as well. So, the transformation stories at the six companies featured in this issue are really functions of macro-level changes in their operating environment. And these were brought about by the dramatic transformation in the Indian economy since 1991.

Now, as India Inc attempts to scale newer peaks—all six companies featured in this list, and several hundred others, have global ambitions—the government must pull out all stops to ensure an enabling



environment for the corporate sector to operate in. In other words, it has to take steps to guarantee that the gains of economic liberalisation "stick". What reforms have done is give India a window of opportunity to sit at the high table of the comity of nations. But this window will close, may be permanently, in the next one-and-a-half generations when India's demographic advantage—our own version of the American baby boomers—evens out, unless we act now.

The need of the hour is a drastic transformation in our labour laws, in foreign direct investment procedures, in infrastructure development, in the social sector and in state level regulations. And more than all these, there needs to

be concerted action on reining in the fiscal deficit.

Thus far, the economic reforms story has been one of a successful public-private partnership. The government has provided a level playing field, and Indian players have delivered. Unless the logic of reforms is taken forward, the gains so far will dissipate over time. The team that ushered economic liberalisation into the country is again in charge of the country's destiny. So, leadership and vision are not issues at all. We need lots more of that old dynamism.

That will create an environment in which many more companies will be forced to undertake transformation journeys. Several of them have reached the take-off point. The ensuing churn will inevitably throw up stronger entities that will take the economy to a higher plane. That's what transformations are all about, aren't they? ■

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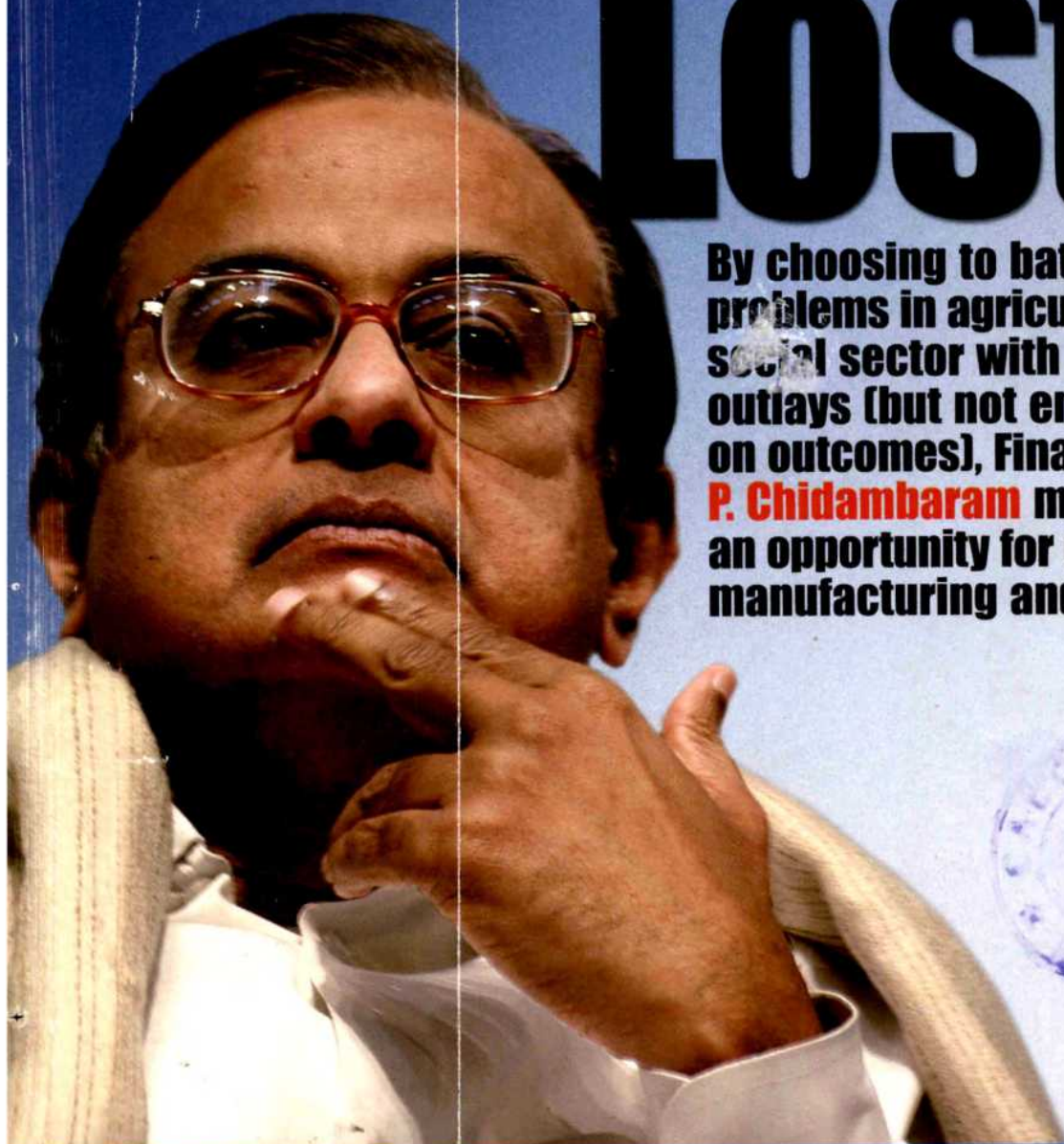
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Opportunity Lost?

By choosing to battle giant problems in agriculture and the social sector with greater outlays (but not enough focus on outcomes), Finance Minister **P. Chidambaram** may have lost an opportunity for quick wins in manufacturing and services.



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From The Editor

THE FUNDAMENTALS ARE RIGHT; THE ECONOMY IS booming; India Inc. is making big strides both within the country and globally. A couple of major acquisitions by Indian business groups like the Tatas and the Birlas have created an aura of bullishness and the world is watching India more keenly than ever before. It was no surprise, therefore, that in the run-up to Budget 2007-08, expectations were running high. Everyone (the media obviously included) wanted to see a repeat of 1997, when P. Chidambaram, Finance Minister then, announced what has universally come to be known as India's Dream Budget.

It didn't happen. Chidambaram's Budget 2007-08, his fourth successive one, turned out to be a timid one. Rather than take full advantage of a buoyant economy and burgeoning tax revenues, the Finance Minister delivered a Budget that failed to enthuse. The most damning criticism came from the stock market, where the bellwether Sensex plunged 541 points, partly owing to the domino effect of a sell-off in Chinese and other international markets but also because of the lack of bold economic reforms in the Budget proposals. In fact, some of his plans—to tax dividend distribution and employee stock options—had a directly negative effect on the market. Indian business and industry were also disappointed not to see more decisive moves like reducing corporate tax and streamlining the structure of taxation.

Still, the Budget has gone a long way in focussing on sectors that have long been neglected but yet are critically important if India is to achieve its aim of growing at 10 per cent or more in the coming years. The focus on agriculture, healthcare and education demonstrates that the government is determined to make growth inclusive. But even so, merely spending money on subsidies, farm credit and other schemes aimed at the poor and underprivileged cannot guarantee benefits to those that are intended to be benefitted. The leaky and faulty delivery and administration systems need to be fixed first.

Business and industry, the biggest constituency of a publication like ours, may be unhappy not to see big announcements that could add a further boost to the generally upbeat mood that prevails now, but is it still the function of Budgets to bring about reform and catalyse growth? Last year, Chidambaram told *Business Today* that the era of Big Bang Budgets was probably over and that Budgets of the future would be more “a matter of fact statements of income and expenditure” that would make “wise allocation of resources and effective monitoring of how those allocations are spent”. If that new era has begun, then it is probably time for us not to have huge expectations every year around the end of February.

Sanjoy Narayan
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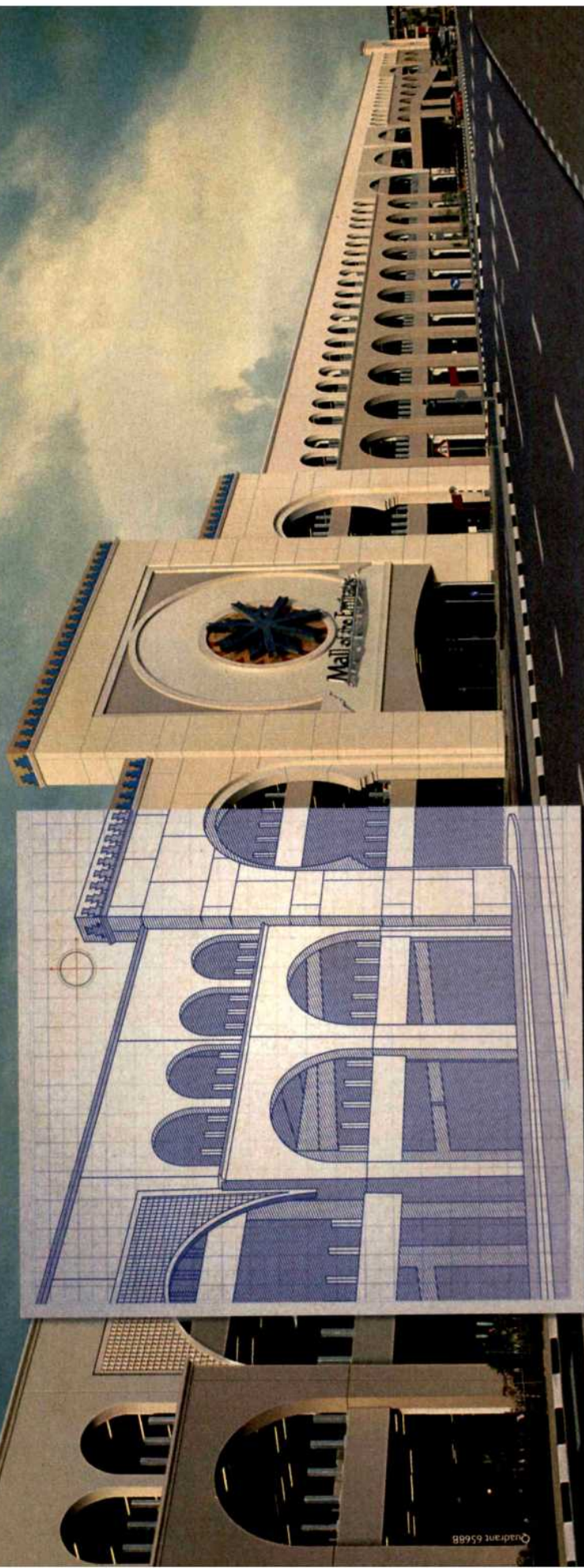
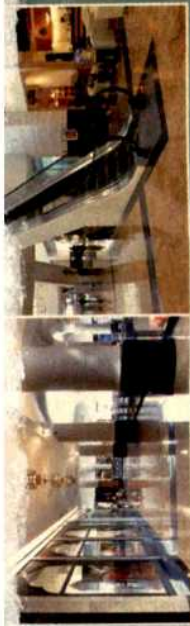
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EDITORIAL

TOO TIMID BY HALF

IMAGINE A THREE-WHEELER WITH ONE FLAT TYRE affixed to a damaged axle. Now imagine this vehicle speeding down an expressway at 100 mph... It defies logic, right? But that's precisely what the Indian economy has been doing these last few years. The industry and the services sectors have been pushing the economy forward at a furious pace, agricultural lethargy—the flat tyre on the broken axle in the example above—notwithstanding.

The sector was crying out for a fix. Now, Finance Minister P. Chidambaram has attempted to do just that. Further, he has supplemented this with efforts to ensure that the benefits of the country's steroid-charged growth rates percolate down to those who need them most. The logic is quite simple: if farm sector growth picks up from 2.3 per cent to 4 per cent, this will put additional purchasing power in the hands of 65 per cent of India's population who depend on it for their livelihood. The virtuous circle will then kick in, taking the country's economic growth into double figures.

So far, so good. Few, if any, can argue with the Finance Minister's good intentions. But *Business Today* has serious misgivings about how efficacious these measures will be. The allocation for education has been raised by Rs 8,237 crore in absolute terms. Will this result in placing more children in the education system? Or, will this bloat the army of ghost teachers, who exist only on the payrolls of the government? Will this, as the Finance Minister hopes, stop children from dropping out of school, or will this merely add to the army of neo-literates who can only sign their names? Healthcare, for which an additional Rs 2,745 crore has been allocated, suffers from similar infirmities on the delivery front. Ditto for the NREG scheme, where several states have failed to even lift, let alone utilise, the funds earmarked for them. There are very real fears that, in the absence of a programme to improve the delivery channels, the increased Budget allocations for the rural and social sec-

tors could become a euphemism for a multi-thousand-crore largesse for corrupt politicians, bureaucrats and contractors.

One cannot also avoid the feeling that Chidambaram has missed a trick or two in his Budget. Revenues are buoyant, the fiscal and revenue deficit targets are on track and the economy is charging ahead. The time was just right for him to initiate structural adjustments that would have set the tone for the years ahead. Tax reforms, obviously, top the list. The conditions were ideal for doing away with myriad exemptions and simplifying both the direct and indirect tax regimes. But, perhaps because of political

pressures, the Budget has made no move in that direction. In fact, some of his measures defy logic. The differential excise duties on cement, the imposition of Fringe Benefit Tax on ESOPs and the extension of MAT to IT companies are three measures that have been widely criticised as retrograde, with some justification. There also doesn't seem to be any serious attempt at fighting inflation. Yes, the customs duties on some items have been cut, but these seem too ad hoc and disjointed to suggest the existence of a bigger picture.

The stock markets have reacted badly, but to be fair to Mr Chidambaram, it must be added that this is because his Budget did not live up to the hype

generated in the run-up to it, and not because his proposals were intrinsically bad or anti-industry. And in any case, a part of the blame for the crash must be apportioned to the global meltdown that took place on B-day. Also, it must be said that the market, which typically looks only at the next quarter, is perhaps not the right filter through which to view a Budget that expressly tries to address the needs of the "other India".

In sum, it's not really a bad Budget, as several people are making it out to be. It's just that the Finance Minister has been too timid to unfurl his sails to catch the high wind that is blowing over the economy. And therein lies a story of missed opportunities. ■



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P. Chidambaram

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Opportunity LOST?

An economy on a roll and buoyant tax collections should have allowed Finance Minister P. Chidambaram to be a lot more daring in introducing much-needed reforms. Political considerations, however, ensured that he pored more funds down leaky channels. SHALINI S. DAGAR

EVEN BEFORE FINANCE MINISTER PALANIAPPAN Chidambaram rose to present his sixth, and the UPA government's fourth Budget, the benchmark index, Sensex, of the Bombay Stock Exchange was down more than 300 points, and by the time the stock market closed for the day, the index had plunged 541 points over the previous day's close. The fact that the Sensex opened 300 points down had nothing to do with the Finance Minister. It was merely mirroring what was happening at other stock exchanges around the world. The major European and Asian stock indices were down between 1.3 per cent and 3.72 per cent.

But the way it kept dropping after the Finance Minister finished his Budget speech had a lot to do with the Budget proposals. Under pressure from rising inflation and electoral setbacks to the major partner (Congress) in the ruling UPA coalition government, Chidambaram had swung one extreme—towards agriculture and the social sector. And the proposals that he announced for industry weren't anything that India Inc. had expected. He brought IT companies (stock market darlings) under Minimum Alternative Tax, slapped an additional 1 per cent cess (on top of the existing 2 per cent) to fund secondary education and expansion of capacity for 54 per cent reservation, increased dividend distribution tax on companies from 12.5 per

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- Reduction in peak customs duty from 12.5 per cent to 10 per cent
- Allowed delivery-based short selling by institutions
- Setting up two subsidiaries of IIFC to fund infrastructure growth
- Exchangeable bonds for business groups

FIVE LEAST REFORMIST ASPECTS

- Dividend distribution tax increased to 15 per cent
- Increase in education cess by 1 per cent on all tax collections
- Introduction of ESOPs in the FBT ambit
- Extended a futile exemption for business undertakings in J&K to 2012
- Introduced ad hoc mode of excise taxation for the cement industry

ECONOMY

	2004-05	2005-06	2006-07
GDP Growth	7.5	9.0	9.2
Farm Growth	0.74	6.0	2.7
Industrial Growth	8.4	8.2	10.6
Services Growth	9.6	9.8	11.2
Savings as% of GDP	31.1	32.4	N.A.
Investment as% of GDP	31.5	33.8	N.A.

Figures in per cent

N.A. = Not Available

GRAPHICS BY RANDHEER



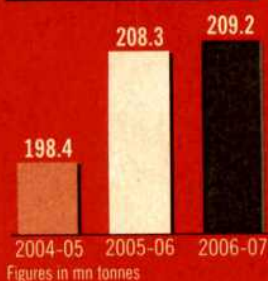
FIVE THINGS THE FM COULD HAVE DONE

- Could have cut direct tax rates some more
- Could have cut the 10 per cent surcharge across the board and not just for SMEs
- Given infrastructure status to the healthcare industry
- Sorted out the row over excise on small cars
- Could have introduced direct measures to deepen debt markets

FIVE MOST POPULIST MEASURES

- Death and disability insurance cover through LIC to rural landless households
- National Means-cum-Merit Scholarship Scheme with a corpus of Rs 750 crore
- Hike in exemption limit on personal income taxes by Rs 10,000
- Targets Rs 2,25,000 crore of farm credit in 2007-08
- Specific allocations for dalits

AGRICULTURAL OUTPUT



STOCK MARKET



TRADE



BUDGET AND THE 11TH PLAN

Will the Budget help the government deliver on its 11th Plan goal of "inclusive and faster growth"? Hard to say, but there's plenty that has been announced in the area of education and health. Take a look:

- **Bharat Nirman:** The overall provision for this country-building plan has been increased by 31.6 per cent to Rs 24,603 crore
- **Outlay for education increased** by 34.2 per cent to Rs 32,352 crore; 2,00,000 more teachers to be re-recruited and 5,00,000 new classrooms to be built
- **Mid-day meal scheme** extended to upper primary children in 3,427 educationally backward districts
- **A National Means-cum-Merit Scholarship** scheme to be introduced to arrest drop-out ratio among school children; 100,000 scholarships of Rs 6,000 each to be given every year to students who've passed class VIII
- **National Rural Employment Guarantee (NREG)** Scheme to cover 330 districts compared to 200 at present
- **Health and family welfare outlay** increased by 21.9 per cent to Rs15,291 crore

cent (excluding surcharge and education cess) to 15 per cent and widened the scope of the Fringe Benefit Tax to employee stock options as well. "We are dismayed to learn of the extension of service tax to areas like content provision, works contracts, commercial rents, etc., and also the new cess on corporate tax. At a time when the country has seen buoyancy in corporate tax collections, such fresh levies are disappointing," says Sanjeev Aga, MD, Idea Cellular.

India Inc., which was hoping for a slew of reformist measures to accelerate its momentum, was sorely disappointed. "We welcome the focus on agriculture, but are disappointed that the Budget did not infuse a "booster dose" into industry," R. Seshasayee, President, CII, and Managing Director, Ashok Leyland, told *BT*.

Playing it Safe

Continuity with a strong social sector fillip seemed to be the leitmotif of the Budget proposals. The background was clearly dominated by concerns of keeping inflation in check all the while making sure that growth too does not dampen. "Overall the Budget continues with the financial prudence mandate and attempts to keep prices stable," says Gautam Hari Singhania,

Chairman & MD, Raymond Ltd. This play-it-safe attitude was not a major surprise given the popular discontent against inflation (especially food articles) that was evident in the state elections in Punjab and Uttarakhand. The Congress party got booted out of power in both the states just a day before the Budget was presented.

Political imperatives accentuated the need to focus on agriculture—the straggler in the Indian growth story. As Chidambaram himself admitted, "average growth during the Tenth Plan period (2002-2007) is estimated at 2.3 per cent, which is below the desired level of 4 per cent a year". So clearly, this sector has to grow if India has to achieve double-digit economic growth. The Budget tried a combination of capital and revenue expenditure schemes to address some of the problems afflicting agriculture. "However, in the absence of any fresh capital schemes that could kick-start long-term growth in this sector, it is difficult to envisage a 4 per cent growth rate in agriculture in 2007-08, leave alone averaging a 4 per cent growth during the 11th Plan," says Siddhartha Roy, economic advisor to Tata Group.

And the Finance Minister well-deservedly claimed kudos for doubling farm credit in the last two years. This year, he gets more ambitious with a target of Rs 2,25,000 crore as farm credit and an addition of 50 lakh new farmers to the banking system. From a special programme in deeply distressed districts to an effort to boost seed production of pulses, the Finance Minister spent the first 15-20 minutes of his speech on agriculture.

One of the key new schemes to be proposed in the current Budget related to death and disability insurance cover for rural landless households through LIC—the Aam Aadmi Bima Yojana. Expected to benefit more than 1.5 crore such households, the cost of this scheme will be shared equally between the Centre and the states. In line with the UPA government's "aam aadmi" (common man) plank, Chidambaram made very visible increases in allocations towards education and health-care—34 per cent and 22 per cent, respectively (see *Mission Rural* on page 24).

However, as Tushar Poddar, Vice President, Asia Economic Research, Goldman Sachs, points out, there is little sense in increasing allocations when existing allocations are left unused. Case in point is the education cess, where a fresh levy has been made even though the existing 2 per cent cess has not been fully utilised. "There is need to emphasise execution and delivery of existing resources before committing significantly more resources," Poddar says. A greater participation by the private sector could infuse much-needed efficiency in the delivery process, yet even that seemed to be a disappointment.

"Increasing the gross budgetary support is not going to convert into better delivery system without

private participation in sectors like healthcare, education and infrastructure,” says Kiran Mazumdar-Shaw of Biocon. In other words, while Chidambaram may have opened his purse-strings to tackle some pressing problems, he hasn’t done anything to solve what has always been the problem with such expenditure—that is, insufficient focus on results.

Fiscal Consolidation

However, the Central government’s spending plans were more or less along expected lines with an emphasis on income security for rural areas, says Sanjeev Sanyal, Director, Global Markets Research, Deutsche Bank. Spending has risen 14.9 per cent in the current financial year and the Budget targets an increase of 10 per cent in the next financial year. Despite no major spending cuts, fiscal correction has been on course mainly due to buoyancy in revenues—a result of galloping economic growth. Fiscal deficit is down to 3.7 per cent of GDP and the FM projects it will further go down to 3.3 per cent by the end of 2007-08—quite achievable, according to economists. But “this was the time to overperform on fiscal targets,” points out Goldman Sachs’ Poddar.

If Chidambaram has been able to splurge on agriculture and social sectors, it is because of the high octane growth that the Indian economy has witnessed in the last three years due to a fortuitous mix of global and domestic economic factors and a little help from continued reform process over the last 15-odd years. Reforms have brought in investment, fostered competition and enhanced productivity and efficiency. The economy is expected to grow at 9.2 per cent in the current financial year, and that too on a base of 9 per cent during 2005-06. Industrial growth for the April-December period stood at 10.8 per cent. Manufacturing, the main driver of growth, is expected to grow at 11.3 per cent during the current year.

Exports are expected to close the year at over \$125 billion. Within non-debt flows, in April-January period, foreign direct investment rose to \$12.5 billion, outpacing portfolio investment at \$6.8 billion. Foreign



More allocations: But will it help the farmers?

exchange reserves in mid-January stood at a more-than-comfortable \$178 billion. Corporate profits have been growing strongly. Naturally, net direct tax collections up to January-end grew 41.2 per cent, outpacing the targeted growth of 27.5 per cent. The same is the case with customs (up 34 per cent till January) and service tax (up 64 per cent till December) collections. Excise is the only tax which is somewhat sluggish. “Chidambaram is surely quite lucky,” quips former Finance Minister Yashwant Sinha.

Naturally then there were expectations that the government would announce deep cuts in direct taxes. However, the Finance Minister has chosen to remain circumspect and not leave any changes in the rates for a detailed Income Tax Bill to be introduced later this year. After all, populist pressures are expected to be stronger next year (general elections are due in 2009). However, the disappointment has been palpable. “The enhancement of Rs 10,000 in the basic exemption limit for personal taxation is too meagre and does not even take into account the rising inflation over the last two years,” says Sanjay Bhatia, President, PHDCCI.

Inflation and Growth

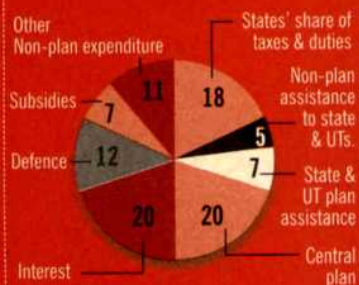
Indirect taxes, however, saw some predictable and entirely expected cuts in a bid to clamp down inflation, which has reared its ugly head over the last six months.

Rupee Comes From

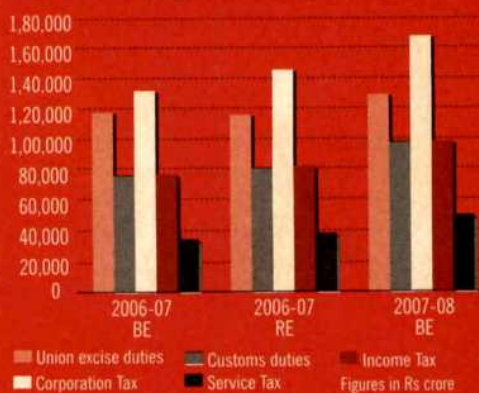


Figures in per cent

Rupee Goes To



Major Revenue Earners

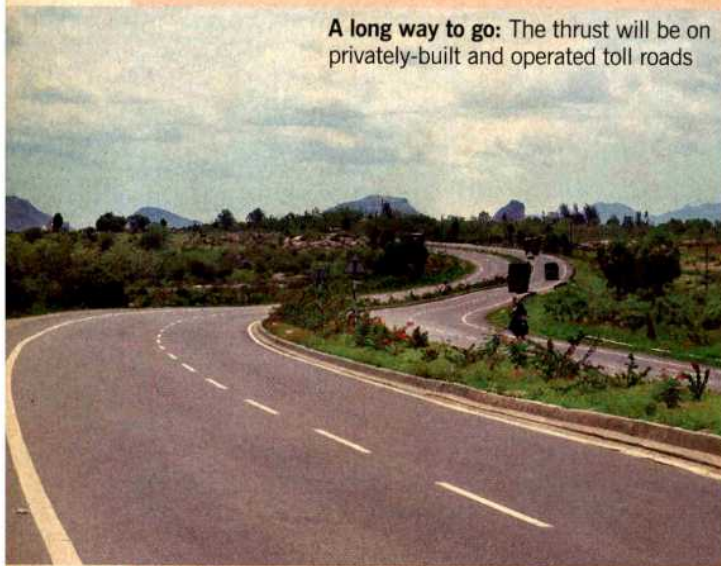


WHAT ABOUT INFRASTRUCTURE?

The accent is clearly on PPPs.

In his Budget speech, the Finance Minister acknowledged that the progress on public private partnership (PPP) in infrastructure projects has been slow. In a bid to speed up the creation of bankable projects, the Finance Minister has proposed the setting up of a revolving fund with a corpus of Rs 100 crore. This fund will contribute up to 75 per cent of the cost related to project preparation by way of interest-free loan, which will eventually be recovered from the successful bidder. Details of the fund will, however, be announced shortly. In the power sector, the Union Power Ministry is to bid out two more ultra mega power projects by July (Sasan and Mundhra are two that have already been given out).

A long way to go: The thrust will be on privately-built and operated toll roads



Although allocation for the National Highway Development Programme (NHDP) has been increased from Rs 9,945 crore last year to Rs 10,667 crore in 2007-08, the thrust will be on privately-built and operated toll roads. And although the finance ministry has proposed allowing mutual funds to launch dedicated infrastructure funds, it remains to be seen how investors will react to it. However, a more significant proposal may be the one that seeks to set up two overseas subsidiaries of Infrastructure Finance Company Limited (IIFCL) that will tap India's forex reserves (via the Reserve Bank of India) and lend to Indian companies setting up infrastructure projects in India. Alternatively, the subsidiaries could co-finance their external commercial borrowings for capital expenditures outside of India, or provide 'credit wrap' insurance for raising funds abroad.

Average inflation in the current year ranged between 5.2 and 5.4 per cent. The cut in peak customs duty from 12.5 per cent to 10 per cent is expected to have a moderating effect on inflation by reducing the input costs of several import-dependent industries. The curious differential excise duty cut for cement manufacturers willing to retail below Rs 190 per 50-kg bag is also an attempt at reducing the rate of inflation. Manufacturers who hold the price line will be taxed at a lower excise rate of Rs 350 per metric tonne (compared to Rs 400 earlier) while others will be taxed at Rs 600 per tonne.

This proposal has met with all-round criticism and it is believed that it will lead to black-marketing and ad-hocism. "(This move) is not expected to control the rising cement prices—basic economics of demand and supply will overrule everything else," says Krishna Kumar Karwa, MD, Emkay Share & Stock Brokers. Notwithstanding these efforts, economists do not expect inflation to drop down significantly from 5.0-5.5 per cent levels in the coming year.

Lower tariff protection, tighter fiscal policy and high borrowing costs could slow growth in the next few quarters, believe economists. Deutsche Bank's Sanyal believes it could slow to the 7.5-8.0 per cent range for the next 18 months but is still not worried due to two reasons—improving fiscal situation and rising savings rate. According to the Economic Survey, the national savings rate jumped to 32.4 per cent of GDP in 2005-06—a substantial increase from around 24 per cent at the beginning of the decade due to demographic factors.

Yet, Chidambaram may also be accused of failing to make use of the opportunity presented by a buoyant economy and resurgent tax collections to make path-breaking, long-range reform changes. However, the consensus is that directionally Chidambaram has delivered a good Budget. That is evident from signposts such as allowing short-sales of securities by institutions and the introduction of exchangeable bonds for Indian business groups looking at internal restructuring, which would help unlock value. "Preparation of a road map for permitting institutions to short sell in the market could bring about the much-needed breadth and depth in Indian capital markets. It would lead to greater institutionalisation and reduce volatility in the market place," says C. Parthasarathy, Chairman, Karvy Group.

"On the whole, the Budget has done a good job of balancing political imperatives and economic compulsions. Although the Budget lacks concrete delivery mechanisms to generate accelerated growth, it has nevertheless not done anything adverse to derail the growth process," says Siddhartha Roy, economic advisor to Tata Group. And that's something to thank Chidambaram for. ■

Experience



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"WE CAN ONLY PROVIDE THE BUCK, NOT THE BANG"

A DAY AFTER HE PRESENTED his fourth successive Budget, Finance Minister P. Chidambaram's schedule was still chock-a-block. Besides facing TV news channels that had queued up for interviews one after another, his day was packed with meetings with industry and business associations and other interest groups. Yet, Chidambaram seemed visibly relaxed when he met up with India Today's Group Editorial Director Prabhu Chawla and Business Today's Editor Sanjoy Narayan. Unfazed by the lacklustre response to his latest Budget, Chidambaram said the hype around budgets just media build-up. He was happy that his Budget was able to keep the Indian growth story intact and nurture the weaker sectors of the economy. Excerpts:

Congratulations Mr Finance Minister, for your fourth successive Budget. Are you dismayed or disappointed by the reaction to your Budget?

Whose reaction are you talking about? Are you talking about the reaction of the corporate sector? I was there with them this morning and they have forgotten what they said yesterday and they sang a very different tune today. It is a 'media created event'. I don't blame the

media; they are perfectly entitled to do that. The point is, you must understand that Budget has a context, it has an economic context and it has a political context. Ten years ago, we had very different dreams. The dream was to plug India in with the rest of the world, and tell them that we are ready to open up and become part of the global economy.

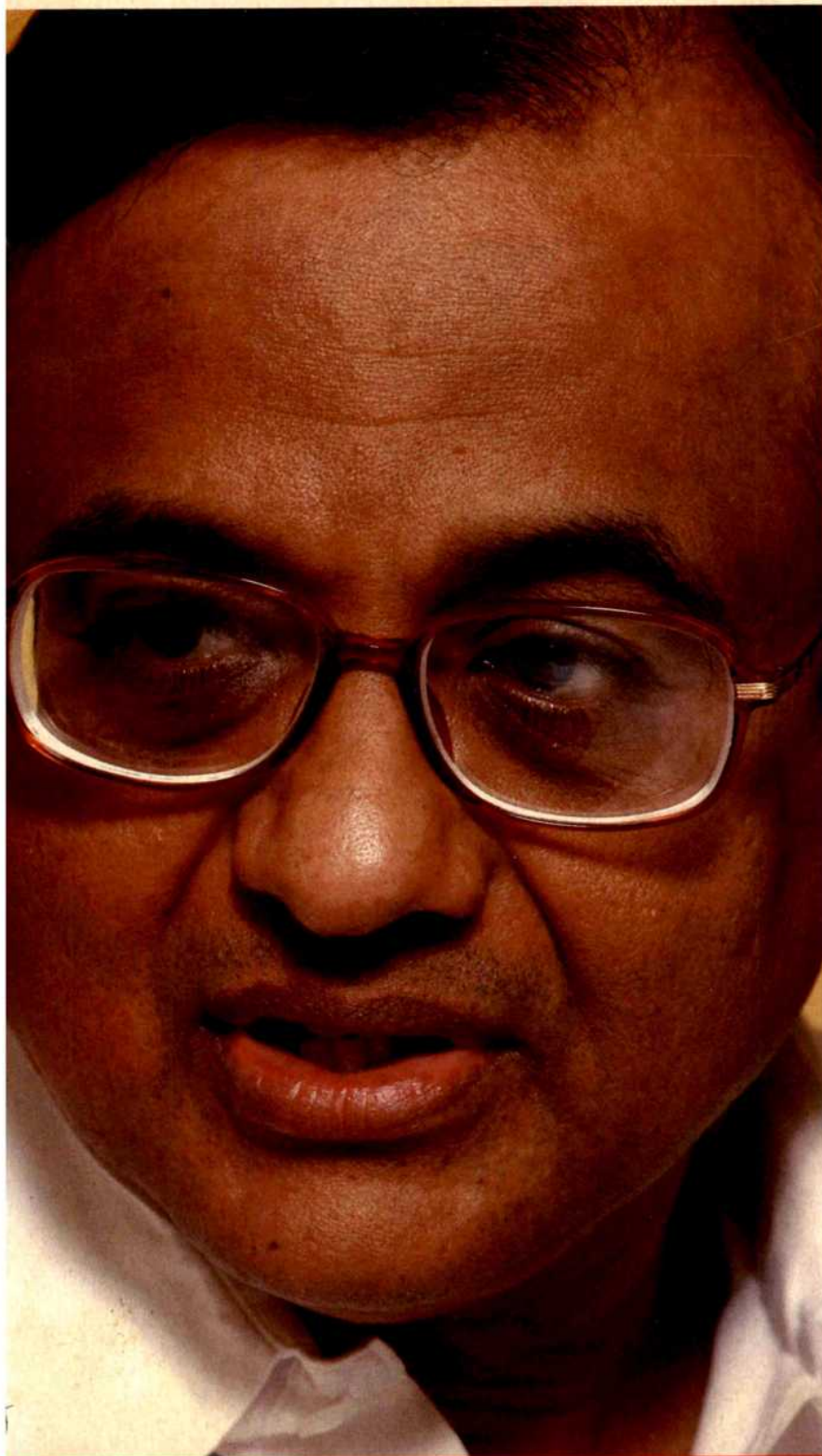
Today, the message we are sending is quite different. We have growth that is not cyclical. We now want to make this growth inclusive. We are sending a message—to India, that we want everyone to be a part of the growth story of India. That (in 1997) was one kind of dream, this is another kind of dream. It was my good luck that I was part of that dream and I am part of this dream as well. But this Budget addresses different dreams.

This Budget also addresses a different challenge. Inflation has been worrying this government. You've tried to

balance sustained high growth, rein in inflation and at the same time, tried to make growth inclusive. How tough was that?

This is a new kind of challenge for India. India has not had a period of sustained high growth where that growth, to some extent, has been clouded by inflation. The last time there was high inflation in this country was in 2000-2001, which is apparently simply a memory even for the people who were in the government at that point of time. For 48 out of 52 weeks, inflation was above 6 per cent, for 22 of those weeks it was above 7 per cent, for 12 of those weeks it was above 8 per cent. They had low growth and high inflation, how could they address this issue? Today, we have high growth and inflation around 6.5-6.6 per cent, and we are genuinely concerned. We believe that we can moderate inflation without affecting the growth story. But as the Prime Minister said yesterday, what we are trying to do is to maintain high

"TODAY, THE MESSAGE WE ARE SENDING IS DIFFERENT. WE WANT TO MAKE THIS GROWTH INCLUSIVE"



growth while moderating inflation.

You are saying that inflation is going out of control, so who do you think is responsible—the trading community?

I can only tell you what is responsible. First, the monetary aggregates. Credit growth is 30 per cent, money supply growth is 21 per cent, foreign exchange inflows are very, very robust. So, the monetary aggregates are putting pressure on the monetary side. Secondly, global commodity prices, which have been very high and are impacting Indian commodity prices. The third reason is completely unexpected—supply-side constraints. One year you have sugar, one year you have wheat, one year you have pulses... but this year all of them have come together. Sugar was the first trigger point; we moderated it when the first sugarcane crop came in. But then we had wheat, add to that pulses, add to that edible oil, all coming together...

Tell us frankly, is this *your* Budget?
Yes it is.

And you are happy with the Budget?
Of course, I am happy with the Budget, I will defend it.

But some of your allies aren't very pleased.

I can't speak for my allies, all I can say is that this government has faithfully adhered to the National Common Minimum Programme. We have spent more money on agriculture; we have put more money into education, more for health-care—Polio, HIV/AIDS. We have

VIVAN MEHRA

put more money into social security; we have put more money into seeds and water management. I can give you a whole list of things; I can read out the list if you have the time...

But there is no 'Big Bang' in the Budget.

I'm sorry, the Budget can only provide the bucks. The bang has to come when the bucks are used to deliver the outcomes.

In the past you have spoken about moving to a tax regime that is simpler, with lower rates and no exemptions. At a time when your revenue collections are the most buoyant, wasn't this the time to do something like that?

We have done so. We have removed several exemptions. And we have also rationalised several taxes, Section 36 (1A) has been rationalised, several exemptions that were expiring on March 31 have been allowed to lapse. We have done it.

But the education cess is going to impact taxpayers...

The education cess is a universal demand. Show me one person who says they won't pay it.



But have you been able to spend the money that you have collected?

Of course, the money has been transferred to a non-lapsable.

Non-lapsable perhaps, but have they spent it?

Look at the numbers... the Ministry of HRD has spent all the money that it was allocated.

But money was collected for Tsunami relief also...

The Tsunami money was to be spent by the state governments. The state governments haven't spent the money that they were given and all I can say is that I am sorry. But look at the HRD numbers. A sum of Rs 17,128 crore was given and they have spent Rs 17,126 crore. I am very happy with the way HRD has spent the money allocated to it.

You have said that you are happy with the way the money is being spent, but what about the outcomes?

The outcome budgets will be presented by the respective ministries to Parliament. This year, I have had a meeting with them and I have impressed upon them that the quality of the outcome budget must improve over last year. It is a new experiment and I think that they are now competing with each other to present a good quality outcome budget.

You talked about focussing on health-care and the social sector with a lot of measures, but the delivery systems are still a matter of concern. Ultimately, we find in a lot of cases that the money

doesn't really reach the beneficiaries.

Is that an issue that can be addressed in the Budget speech? It cannot. It is part of the governance system. I said so in my speech quite candidly. I said there is no dearth of funds, there is no dearth of schemes, what needs to be done is to deliver the intended outcomes. How much more candid can a Finance Minister be? This is part of the governance structure in this country—Central governments, state governments, district administration, panchayat. Money has to be spent down the line. Obviously, these are matters that cannot be addressed by one person in his speech. These are to be addressed by systemic changes in the governance system.

But in the absence of such systems, pushing money down...

What do you want me to do? Put the money away in the bank? It is intended for agriculture, education, health etc., and we give the money and we try to improve the governance. What do you want me to do? Just because we have some leakages and some wastage, we can't hold back and say we won't give the money.

What would you then say is the big idea behind the Budget this time?

The big idea behind this Budget is, I think, that the growth cycle, which is now visible, is not a cyclical shift, it is a structural shift. The message is: Now that we seem to have got into a higher growth cycle, let us then distribute this

"IF YOU TAKE THE VIEW THAT ESOP IS A FRINGE BENEFIT, WHICH IT IS, THEN IT IS A RIGHT TAX"



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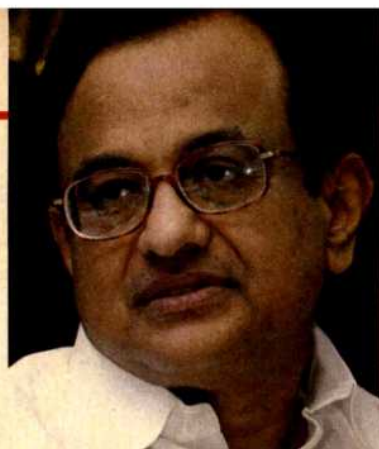
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SIPRA DAS

growth to a larger section of our people. And the most deserving sector of our people is the most neglected so far, and that is the farm sector. And, therefore, more money is being pumped into the farm sector. The other sectors that have been asking for more funds—health and education—have been given more money. The message of this Budget is, growth is happening, let us become more inclusive. Let the gains be distributed to more sections.

But aren't you being a bit conservative about growth in the coming Budget? Your revenue targets seem to be a bit lower than last year's?

That is not correct. All of you, wittingly or unwittingly look at the RE and then the BE. Budgets are not made that way, Budgets have always been made on BE to BE. And if you take that, last year I had Rs 442,000 crore and this year Rs 548,000 crore, a good Rs 106,000 crore increase, which is a 20 per cent increase. And that is not a conservative, not a pessimistic assessment. That is a very aggressive assessment.

Many sectors expected more from the Budget. We have been talking about making India a small car hub globally and automakers expected cuts in excise...

We addressed that issue last year when we brought down excise duty from 24 to 16. Are you suggesting that we bring them down further this year?

Yes, but that was only for a certain

category of cars.

Only for small cars, we said that we will make India a hub for small cars. And the industry thanked the government for that last year.

But this year the industry responded by raising prices.

Raising prices is a sum of many factors. Demand, input costs and other factors. The fact is, hasn't India become more of an exporter of small cars than it was in the past? The answer is a resounding yes. More cars were exported out of India in 2006-07 than in the previous years, because they got a huge benefit from the 8 per cent excise duty cut.

There is the issue of capital account convertibility, do you think the time is right for that?

The report says, fuller convertibility, not full convertibility. Except for some countries, and even they have some sort of capital controls (no one offers full convertibility). What we are trying to move towards is fuller convertibility, where the glass is fuller and fuller. As we reach the parameters for inflation, for reserves, for deficit, we will take steps towards fuller convertibility.

You have imposed Fringe Benefit Tax on ESOPs and fast growing companies are concerned that this will add to their costs of retaining people by giving them ESOPs.

You see there is a logical way to proceed. Is ESOP a fringe benefit or not? If you take the view that ESOP is not a fringe benefit, then it is a wrong tax. But if you take the view

that ESOP is a fringe benefit, then it is a right tax. Undoubtedly, ESOP is a fringe benefit and must be taxed.

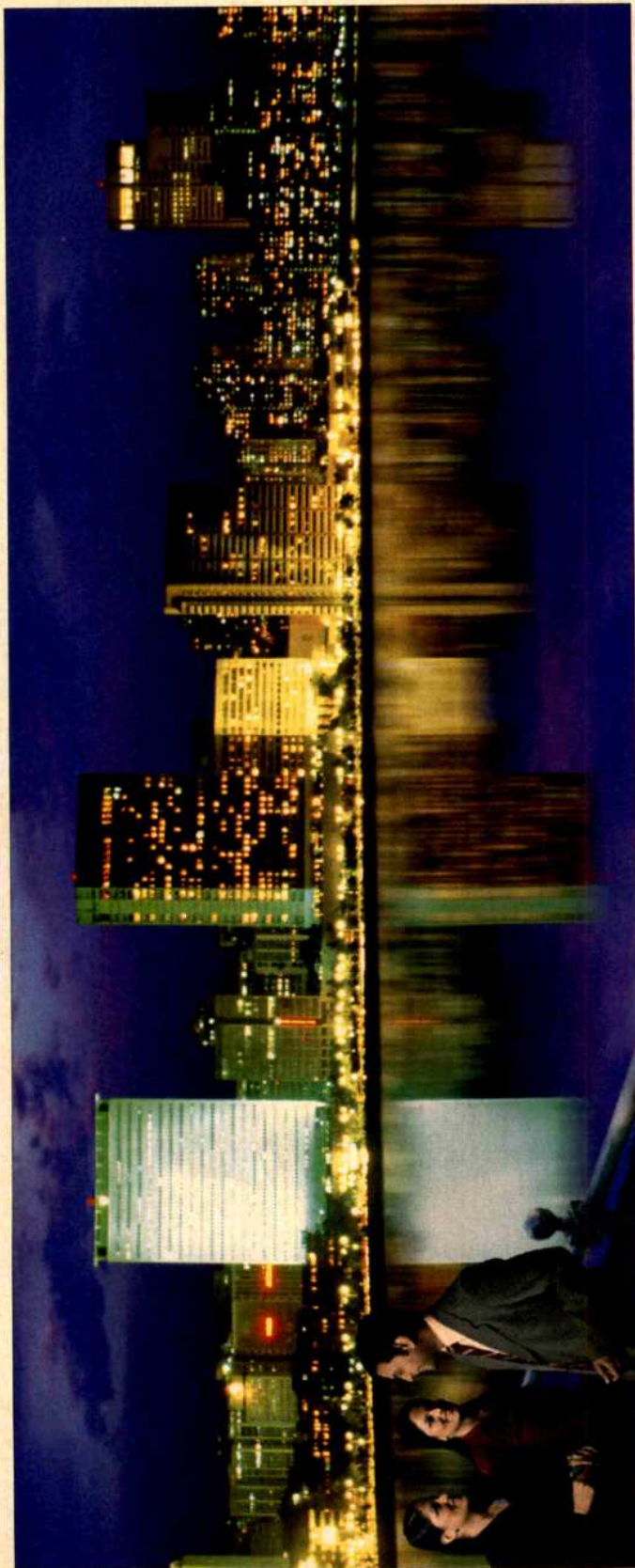
Would you have done more in this Budget if you could do so?

(Laughs) Whatever I wanted to do I have done. I am very happy I have been able to do something for children leaving Class 8 and then dropping out. I am very happy I have been able to do something for the physically challenged, I am very happy I have been able to do something for groundwater recharge. I am happy for what I have been able to do for HIV/AIDS, Polio. These are very important concerns for me, concerns which are close to my heart. I have always spoken and written passionately about HIV/AIDS, Polio and the physically challenged and I am happy that we have been able to do something about that this year because we have the money. I could not have done it a couple of years ago.

What I meant was, if Congress had the single-party majority would you have done it before?

That is not the way to look at it, I am bound by the NCMP, if the Congress party was alone in majority I would be bound by the Congress party's manifesto, and as I said last year that when I took on the job, I knew I had to do the NCMP. Everything that has been done in this Budget is consistent with the NCMP. Today, we are the UPA government, we have the NCMP and I am the Finance Minister of the UPA government. ■

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VOX CEOs

What India Inc.'s big guns have to say about Budget 2007-08. AMAN MALIK & BIBEK BHATTACHARYA

FALGUNI NAYAR
MD/ Kotak Mahindra Capital

"Most proposals are aimed at micro managing the economy. Among the negatives are FBT on ESOP and higher dividend tax. The focus to make growth in agriculture inclusive is welcome."

SOUMIK KAR



R. SESHASAYEE
MD/ Ashok Leyland/ President/ CII

"We welcome the focus on agriculture. We are disappointed that the Budget does not infuse 'booster dose' into industry."



VINAYAK CHATTERJEE
Chairman/ Feedback Ventures

"Allowing MFS to set up infrastructure funds and unlocking forex reserves to service the infrastructure space are right steps."



AMIT MITRA
Secretary General/ FICCI

"The FM is doing the right thing by cutting down on the fiscal deficit and I feel that it is the correct way to control the price rise."



HABIL KHORAKIWALA
Chairman & Managing Director/ Wockhardt

"The FM has lost a great opportunity to help the corporate world. When there has been such buoyancy in revenue collection, the private sector should have been given relief."



MALVINDER SINGH
CEO & MD/ Ranbaxy Labs

"The Budget has been positive, and it also shows that FM has various constituencies to address."

VIVAN MEHRA

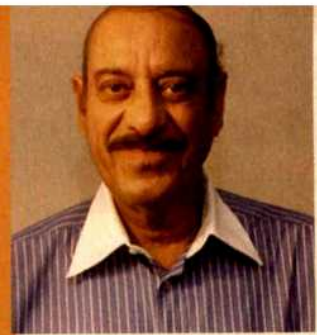


SUSHIL ANSAL
Chairman/ Ansal Properties and Infrastructure

"It remains to be seen if cement and plywood prices come down. That will be better for mass housing projects."

NARESH TREHAN
Executive Director/ Escorts Hospital

"Finally rural sector, education and healthcare are getting attention. Tax sops will help individual healthcare."



MADHUR BAJAJ
Vice Chairman, Director/ Bajaj Auto

"We are happy that CST has been reduced. The silver lining: no new penalty has been levied on auto sector."



SUNIL MUNJAL
MD, CEO/ Hero Cycles

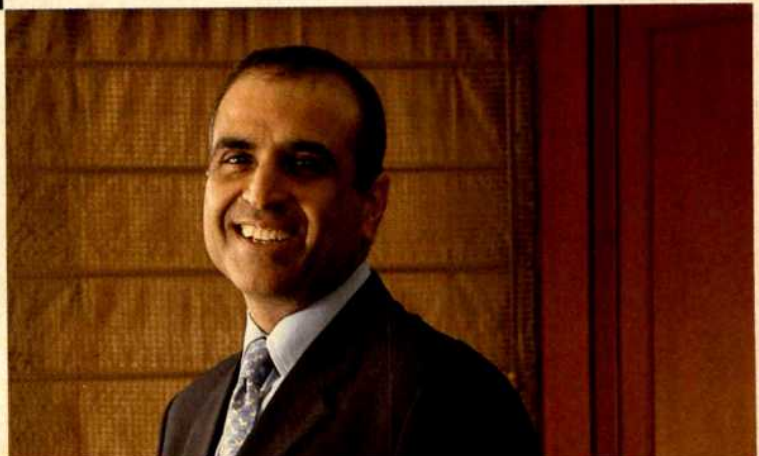
"Budgets are fast becoming little more than the Centre's profit and loss accounts, which is how it should be."



SUNIL BHARTI MITTAL
CMD/ Bharti Group

"A clear signal that Corporate India, which has learned to stand on its feet, should not just look to the Budget for growth."

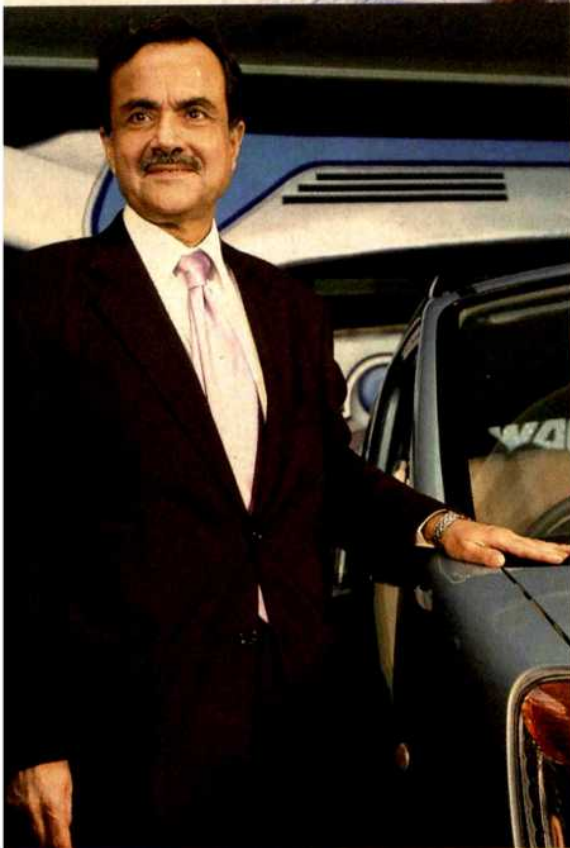
SAPTARISHI BISWAS

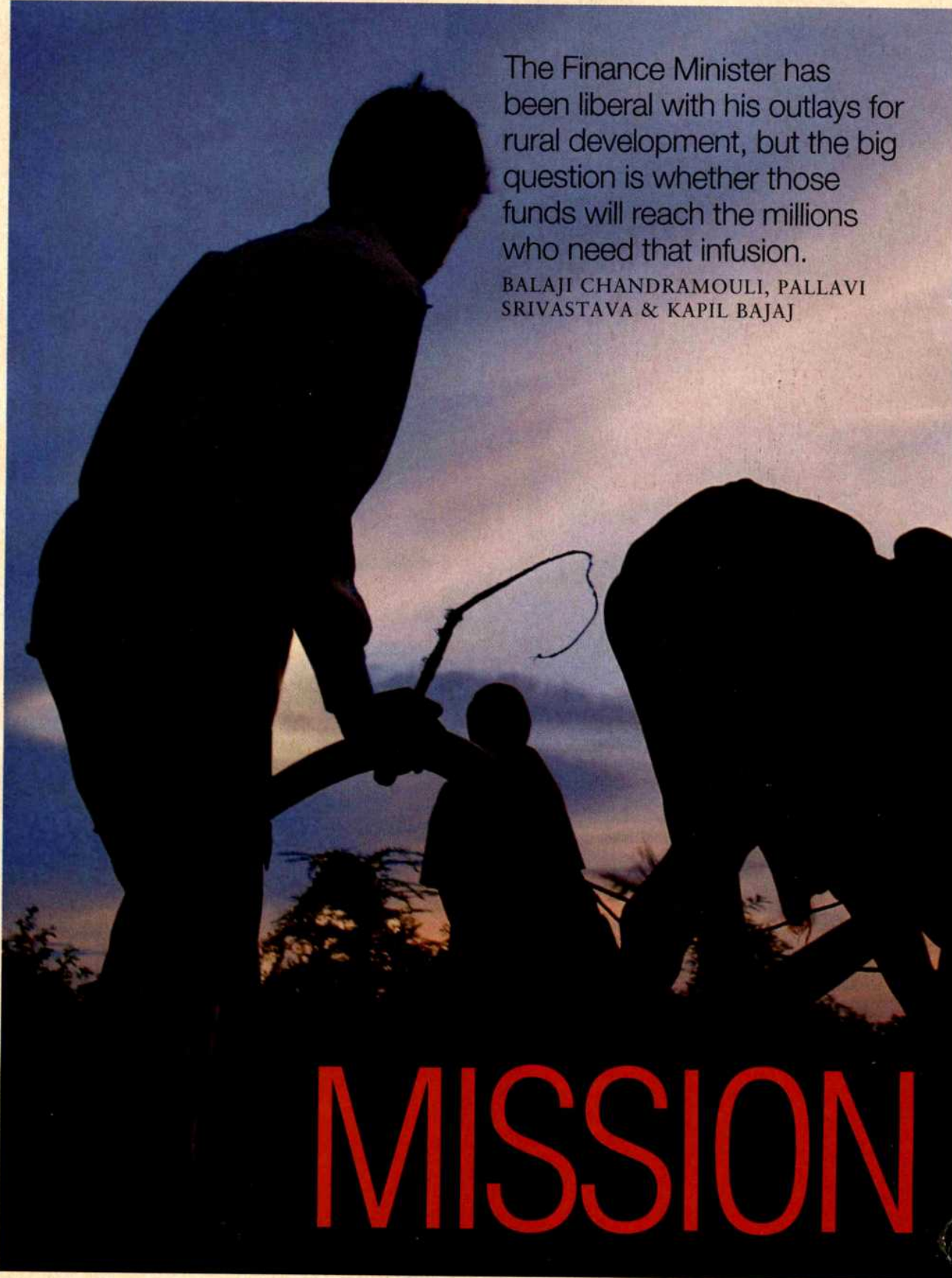


SUMEET INDER SINGH

JAGDISH KHATTAR
Managing Director/ Maruti Udyog

"It is by and large a non-event Budget, especially for the auto sector. It is for the first time climate change has been mentioned in the Union Budget of India."



A large silhouette of a man plowing a field with a bullock against a sunset sky. The man is on the left, leaning forward, holding a whip. The bullock is on the right, facing left. The sky is a mix of blue and orange. The word 'MISSION' is written in large red letters at the bottom.

The Finance Minister has been liberal with his outlays for rural development, but the big question is whether those funds will reach the millions who need that infusion.

BALAJI CHANDRAMOULI, PALLAVI SRIVASTAVA & KAPIL BAJAJ

MISSION

AP

A "GROWTH PROCESS THAT IS MUCH MORE INCLUSIVE," is what the Prime Minister wanted. And P. Chidambaram obliged. And how! A little more than half of his 103-minute Budget 2007-08 speech was devoted to essential services that urban city slickers wouldn't ponder over for too long: Drinking water and sanitation, rural roads and houses, health and family welfare, polio eradication...and of course the big A, agriculture. "One of the major positive features of the Budget has been its prime focus on education and healthcare. The Budget aims at improving access to social services and provides a social safety net," says Dr Siddhartha Roy, Economic Advisor, Tata Group. The step-up in outlays for these sectors are significant, though not eye-popping. Bharat Nirman, a four-year programme for building

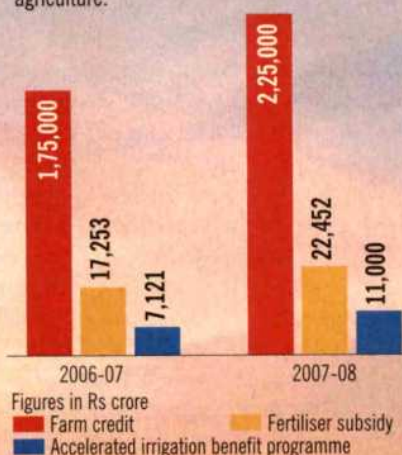
rural infrastructure, for instance, will now witness a 31.6 per cent increase in budgetary allocation, up to Rs 24,603 crore. The provision for education is up 34.2 per cent to Rs 32,352 crore, and for health and family welfare it's almost 22 per cent higher, at Rs 15,291 crore. The stated objectives of these increases are higher growth in the agricultural sector, faster employment creation, and access to basic physical infrastructure, health and education for all. The final milestone: A growth rate of 10 per cent by 2011, which is when the 11th five-year Plan period ends. Here's how Chidambaram hopes to get there:

Agriculture's New Lifeline

The agriculture sector, much neglected in the past, received a shot in the arm in the 2007-08 Budget. The

The Agri Push

The FM devoted much of his Budget speech to agriculture.



RURAL

SOUMITRA CHAUDHURI

Member, PM's Economic Advisory Council

"The ingredients for a success story are there. If the measures are delivered with reasonable efficiency, a 4 per cent growth rate (in agriculture) is achievable"



aim: To nudge the growth rate to an average of 4 per cent during the 11th Plan period (2007-2011), as against the dismal 2.3 per cent recorded during the 10th Plan period (2002-07). The prescription: More farm credit to boost investments; strengthening state-owned institutions in the sector; higher investments in irrigation projects; measures to improve efficiency in the farm sector; and additional help for distressed districts by way of low-cost loans.

It's doubtless a sound prescription, but that on its own may not be enough to fix the sector's woes, many of which have turned chronic. These include the lack of investments, poor irrigation systems, overdependence on monsoons, low quality seeds and numerous intermediaries that cut into farmer's income. The question, though, is: Are the FM's revenue-expenditure initiatives adequate to hit the targeted growth of 4 per cent in the years ahead? Maybe not, feels Roy of the Tata Group. "In the absence of any fresh capital schemes, which could kick-start long-term growth in this sector, it is difficult to envisage a 4 per cent growth rate in agriculture in 2007-08, leave alone averaging a 4 per cent growth during the 11th plan," he shrugs. The government's think-tank would beg to differ. Says Soumitra Chaudhuri, Member, Prime Minister's Economic Advisory Council: "The ingredients for a success story are there in the Budget. The task ahead is that of delivering results. Yes, if the measures are delivered with reasonable efficiency, a 4 per cent growth rate (in agriculture) during the 11th Plan period is achievable."

While farm credit has doubled in the last two years, the Finance Minister hopes to do better in the following year. He expects it to rise to Rs 2,25,000 crore

this year and in the process add another 50 lakh farmers to the banking system. To catalyse this development, banking norms with regard to bad and doubtful debts will be eased. To ensure that the economics of the business do not convert the lending business into a losing proposition, Chidambaram has raised the government funding for irrigation by around Rs 5,000 crore to Rs 11,000 crore and increased the grant component to states by as much as Rs 1,000 crore to Rs 2,350 crore.

Taking a leaf from the Green Revolution in the 1960s that brought about self-sufficiency in key farm products, Chidambaram has mooted strengthening the state-owned institutions like the Indian Council of Agricultural Research and the state agricultural universities. The objective is to provide 100 trainers, and train 1,000 farmers every year in various farming practices, including water harvesting. To enable this, the government will provide an interest-free loan of Rs 3 crore per institution as corpus. Complementing this exercise will be a revamp of the prevailing Training and Visit (T&V) programme, where experts from agriculture institutes visit the farm and impart new techniques. The Agriculture Technology Management Agency, which is present in 262 districts, will now expand its operations to 300 districts. Additional funding to the tune of Rs 180 crore will be provided for this purpose.

Besides a strong dose of funding, the farm sector is in dire need of good seeds; the private sector, so far, has not found it viable to develop non-hybrid variety seeds. Realising this inadequacy, which can be filled for the moment only by the state, the Finance Minister has decided to strengthen the Indian Institute of Pulses. The investments are aimed at doubling the production of certified seeds in three years. This will improve crop



DALJIT SINGH

President/ Fortis Healthcare

"It's heartening that the Finance Minister has taken a number of steps to improve public health. They are all welcome steps"

production, especially, in the case of oilseeds, pulses, oil palm and maize.

While the Finance Minister has outlined the proposals in his Budget, the Agriculture Ministry will prepare the implementation programme for the various proposals. And, therein lies the rub, argue experts. Given the government's inefficient delivery mechanism, it will be a tall order task to ensure that benefits accrue to the targeted lot. Agrees the Finance Minister: "Implementation is a very important aspect of the programme." With 60 per cent of the country's population depending on agriculture for their bread and butter, finding the right fix for the agri-sector is critical.



H. K. RAISEKHAR

EDUCATION GETS A LEG UP

And some more allocations.

Allocation	2006-07	2007-08
Education	24,107	32,352
School education	17,133	23,142
Teacher training institutes	162	450
Mid-day meal scheme	5,348	7,324
Prarambhik Shiksha Kosh	8,746	10,393
Secondary education	1,837	3,794

Figures in Rs crore

Healthcare in the Hinterland

If agriculture got its due in the FM's budget speech, health and family welfare wasn't far behind, what with Chidambaram proposing to increase the allocation on this front by 21.9 per cent, to Rs 15,291 crore. While the much-awaited National Urban Health Mission as well as the National Pharmaceutical Policy are yet to be announced, the institutional integration of all the health schemes at the district and lower levels have been achieved under the National Rural

FOCUS ON THE FARM

● **Farm credit target** for 2007-08 fixed at Rs 225,000 crore as against the previous year's Rs 175,000 crore (which has been exceeded). 50 lakh new farmers expected to enter the banking system

● **Budget for fertiliser subsidies** increased from Rs 17,253 crore in 2006-07 to Rs 22,452 crore

● **To improve the quality and increase the quantity of certified seeds**, the Integrated Oilseeds, Oil Palm, Pulses and Maize Development Programme will be expanded. The government will offer a capital grant or concessional financing to producers in a bid to double production of certified seeds within three years

● **Special plan**—which includes water-related schemes and schemes for inducting high-yielding milch animals and related activities—being implemented over three years in 31 "especially distressed" districts in four states, involving Rs 16,979 crore

● **A special-purpose tea fund** has been launched; similar mechanisms to rejuvenate the coffee, rubber, spices, cashew and coconut sectors to be flagged off

● **Outlay for the Accelerated Irrigation Benefit Programme (AIBP)** to be increased from Rs 7,121 crore in 2006-07 to Rs 11,000 crore. Grant component to state governments will increase to Rs 3,580 crore

● **World Bank** has signed a Rs 2,182 crore loan agreement with Tamil Nadu to restore 5,763 water bodies. A similar agreement is expected to be concluded for Andhra Pradesh, Karnataka and Orissa soon

● **Government to transfer** Rs 1,800 crore to NABARD to enable 100 per cent subsidies to small and marginal farmers, and 50 per cent subsidy to other farmers, to create millions of "dug wells" (into which rain water is diverted)

● **Rs 100 crore** for a training programme to train farmers in water harvesting

● **Provision for the Agriculture Technology Management Agency** increased from Rs 50 crore to Rs 230 crore

● **Provision of Rs 500 crore** for the National Agricultural Insurance Scheme, and Rs 100 crore allocated for a weather-based crop insurance pilot scheme, to be started by the Agricultural Insurance Corp.

● **NABARD to issue rural bonds** worth Rs 5,000 crore, which will be guaranteed by the government, and be eligible for tax exemptions

SATISH REDDY

MD/ Dr Reddy's Laboratories

"Increased allocations for safe drinking water and sanitation are welcome, but at best they sustain initiatives of the past"



Health Mission (NRHM). All districts in the country will complete preparation of District Health Action Plans by March 2007 and the allocation for the NRHM has been increased from Rs 8,207 crore in 2006-07 to Rs 9,947 crore in 2007-08. Through Monthly Health Days (MHD) organised at Anganwadi centres, the government plans to bring together various programmes such as immunisation, antenatal care as well as nutrition and sanitation. While 320,000 Associated Social Health Activists (ASHAs) have been recruited and over 200,000 have received orientation training, another

90,000 link workers have been selected by the states. Ayurveda, Yoga & Naturopathy, Unani, Sidha and Homeopathy systems are also being mainstreamed into the health delivery system at all levels. Says Naresh Trehan, Executive Director, Escorts Heart Institute and Research Centre: "The direction of the Budget is laudable. Finally, the rural sector, (education) and healthcare are getting attention."

Consider, for instance the polio eradication programme, which has now been integrated into the NRHM. The ASHAs and the Anganwadi workers will visit every household and track every child for the immunisation programme. The number of polio rounds will be increased, monovalent vaccine will be introduced, and there will be intensive coverage in the 20 high-risk districts of Uttar Pradesh and 10 districts of Bihar. To achieve the goal of eliminating polio, Rs 1,290 crore has been provided for 2007-08.

The National AIDS Control Programme (NACP)-III, which will start in 2007-08 by building on NACP-I and NACP-II, will target high-risk groups in all states. More hospitals will provide treatment to prevent transmission of HIV/AIDS from mother to child. Support will be given to the protocol on paediatric dosage developed by Indian doctors and launched in November 2006. For 2007-08, the provision for AIDS control has been raised to Rs 969 crore. Daljit Singh, President (Strategy and Organisational Development), Fortis Healthcare, says: "It's heartening that the Finance Minister has taken a number of steps in improving public health. So, increased allocation for the NRHM, Rs 969 crore for AIDS control, provision for polio eradication and increased allocation for Integrated Child Development Services are all welcome steps."

But there's still a lot more hard work left to be done. "There is no direction on implementation or what models will be used," he adds. And there are those who don't see any radical, or even fresh, initiatives in the FM's budgetary proposals. Says Satish Reddy, Managing Director & COO, Dr Reddy's Laboratories: "Increased allocations to the National Rural Health Mission and for safe drinking water and sanitation are welcome, but at best they sustain initiatives of the past." Reddy adds that health being a state subject



LALIT RANA

HEALTHCARE GETS A SHOT IN THE ARM

Allocation	2006-07	2007-08
Rajiv Gandhi Drinking Water Mission	4,680	5,850
Total Sanitation Campaign	720	954
National Rural Health Mission	8,207	9,947
AIDS control	959	969
Polio elimination	1,004	1,290
Integrated Child Development Services	4,087	4,761

Figures in Rs crore

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GAUTAM PURI

Managing Director/ Career Launcher

"Building a regular cadre of teachers is a must but it should go hand in hand with more accountability for teachers"



brings along its own set of problems. "It is clear that few states have the money to make a difference and the Finance Minister has chosen not to make an effort to alter the *status quo*."

Education: Building a Knowledge Economy

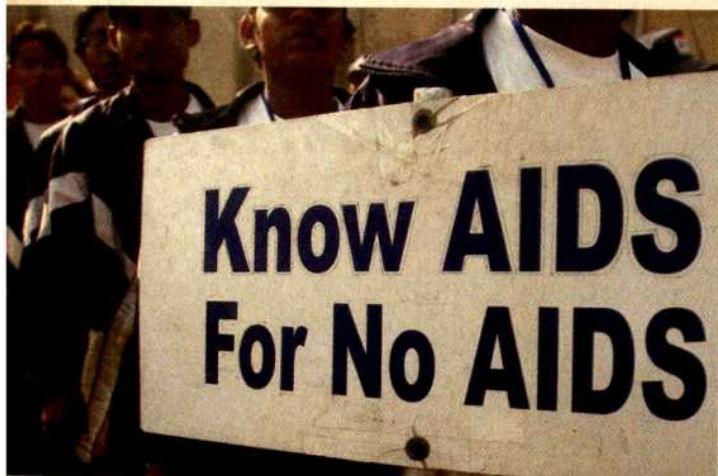
India's schools mirror its painful struggle to transform an unequal and ignorant society into an equal and enlightened one. Look into this mirror and you see images that inspire as much hope as despair. Hope because India's recent economic success rests on its enlightened workforce (think IT, pharma and biotech) and despair because knowledge hasn't filtered into a greater part of the Indian population. Now, with Chidambaram kick-starting outlays in education (see *Education Gets a Leg-up*), it's the hope that's in the limelight.

"Until the early 1990s, the government still believed that there is no demand for education among a number of backward communities. The recognition for huge demand for education only met with reduced spend on education and other social sectors in the early 1990s when reforms were kick-started. I am inclined to believe that things are changing though we still are grappling with the issues of poor access, quality and equity," says Sukanya Bose, a Delhi-based economist

who has worked with Economic Research Foundation, a non-profit research outfit, on expanding educational opportunities. O.N. Singh, Commissioner, Navodaya Vidyalaya Samity, which runs residential schools for talented but underprivileged children in rural areas, says Chidambaram has nudged India nearer to the league of developed nations that spend huge amounts on education. "A 35 per cent increase in school education is a great leap forward in expanding access," he says.

But that may not be good enough. Arvind Sardana, an educationist at Eklavya, an NGO that has helped over 500 government schools in improving the quality of education, says enhanced allocations for education mean little unless the fundamental issue of quality of education is addressed. "A high drop-out rate is a direct result of the poor quality of education. What's disturbing is that instead of building a regular cadre of teachers, states have been hiring para teachers (on short-term contracts) who get one third of the salary received by regular teachers," points out Sardana. Gautam Puri, MD, Career Launcher, says building a regular cadre of teachers is a must but it should go hand in hand with more accountability for teachers.

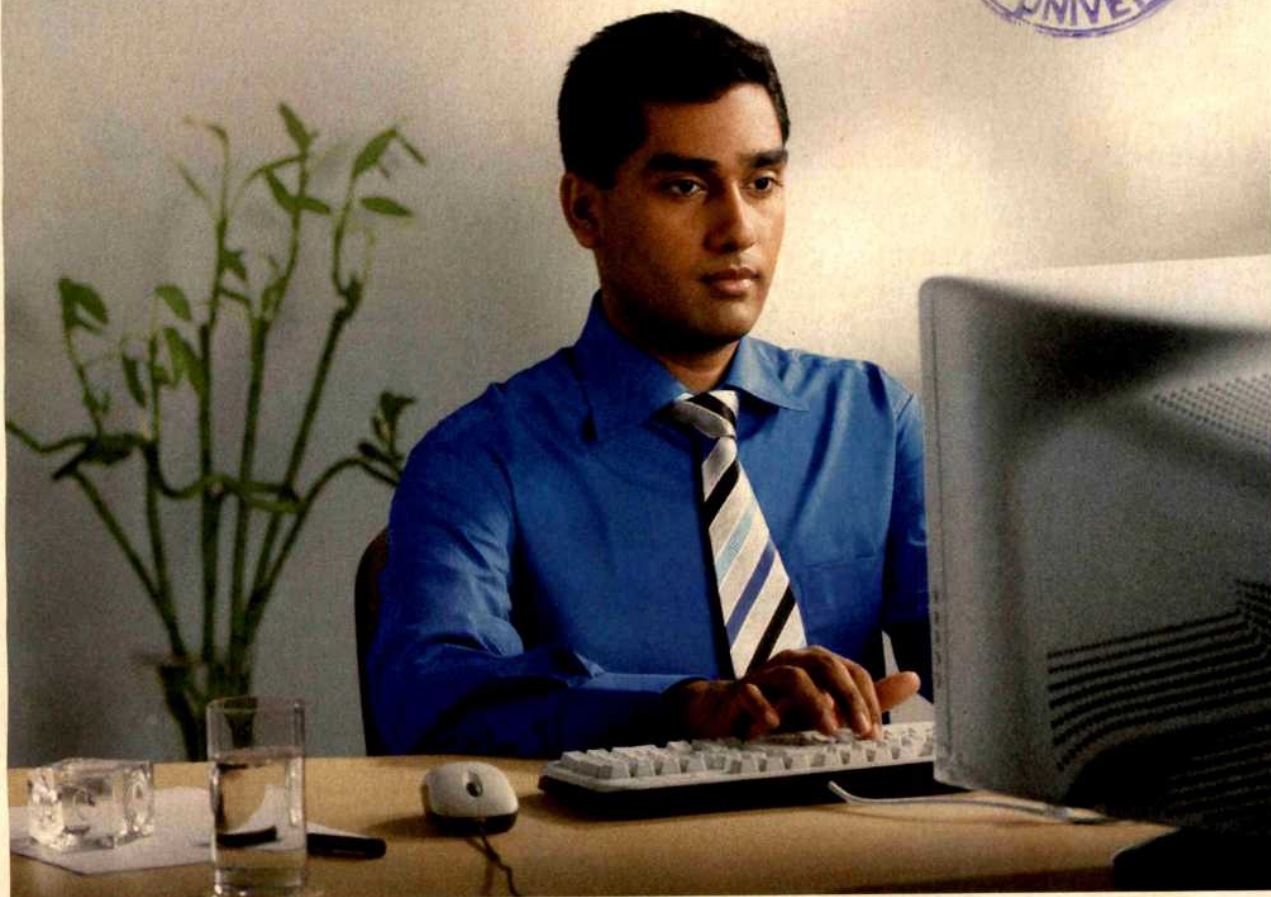
Bose says motivated and engaged teachers represent just one of the desiderata. "In rural areas, most of the pupils are first generation learners, whose parents have never had any education. Many of them also belong to the downtrodden communities. These pupils have special needs that can only be addressed by motivated, sensitive and engaged teachers," she says. Yet Bose is heartened by the proposal to turn 1,396 Industrial Training Institutes (ITIs) into centres of excellence through public-private partnership because vocational education must build stronger linkages with industry. She also welcomes the additional 1 per cent cess for secondary and higher education as the growing number of primary school graduates needs more secondary school infrastructure. "Doubling the allocation for secondary education, 1 lakh scholarships for 8th standard pass under the National Means-cum-Merit Scholarship Scheme and a 1 per cent additional cess for secondary education mean that India is serious about education. They are all welcome steps," Puri adds. ■



The medium is the message: The allocation for AIDS control has been increased to Rs 969 crore

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"Allowing institutional investors to short sell and domestic investors to invest in overseas securities would help take India's capital markets a step forward as would the recognition of financial services as India's next growth engine"

TO MY MIND, THE FINANCE Minister has done a fair job in his Budget proposals for the year 2007-08. He has continued with a moderate tax regime, has taken steps to control inflation, and has cut revenue and fiscal deficits. The thrust towards infrastructure development has continued, as has the focus on agriculture and allied industries. The market's worst fears of a possible increase in securities transaction tax (STT) and short-term capital gains tax have not materialised. However, the imposition of dividend distribution tax on mutual funds, the increase in distribution tax on dividend paying companies and the additional education cess of 1 per cent have come as a disappointment.

GDP growth remains robust and I am impressed with the government's prudent fiscal management—revised estimates for 2006-07 put revenue deficit at 2 per cent against a Budget estimate of 2.1 per cent and fiscal deficit at 3.7 per cent against a Budget estimate of 3.8 per cent. The Budget estimates for 2007-08 indicate further improvement—revenue deficit at 1.5 per cent of GDP and fiscal deficit at 3.3 per cent of GDP. If the Budget estimates are met, fiscal deficit would decline 800 basis points during the three-year period 2005-08.

The focus on agriculture and allied industries has continued, with several measures being announced in favour of the farming community. The effects of the wide-ranging proposals on agriculture could bring about the much-needed 'Green Revolution'. Fiscal incentives have been given to the food processing industry and small-scale industries have been encouraged. In my opinion, these measures combined with higher social spending would eventually translate into higher disposable incomes and better quality of life for a larger section of India's population. Socio-economic inequity is one of the factors that have the potential to derail a country's growth process. Therefore, while the increased thrust on social spending might be viewed as 'populist' or 'vote bank economics' by many, I believe such measures would eventually result in a more vibrant economy.

Coming to issues specific to the capital market, while an increase in dividend distribution tax has been proposed, the market's worst fears of a possible increase in securities transaction tax and short-term capital gains tax have not materialised. The proposal to make permanent account number (PAN) as the sole identification requirement for investors is a positive step as is the focus on self-regulatory

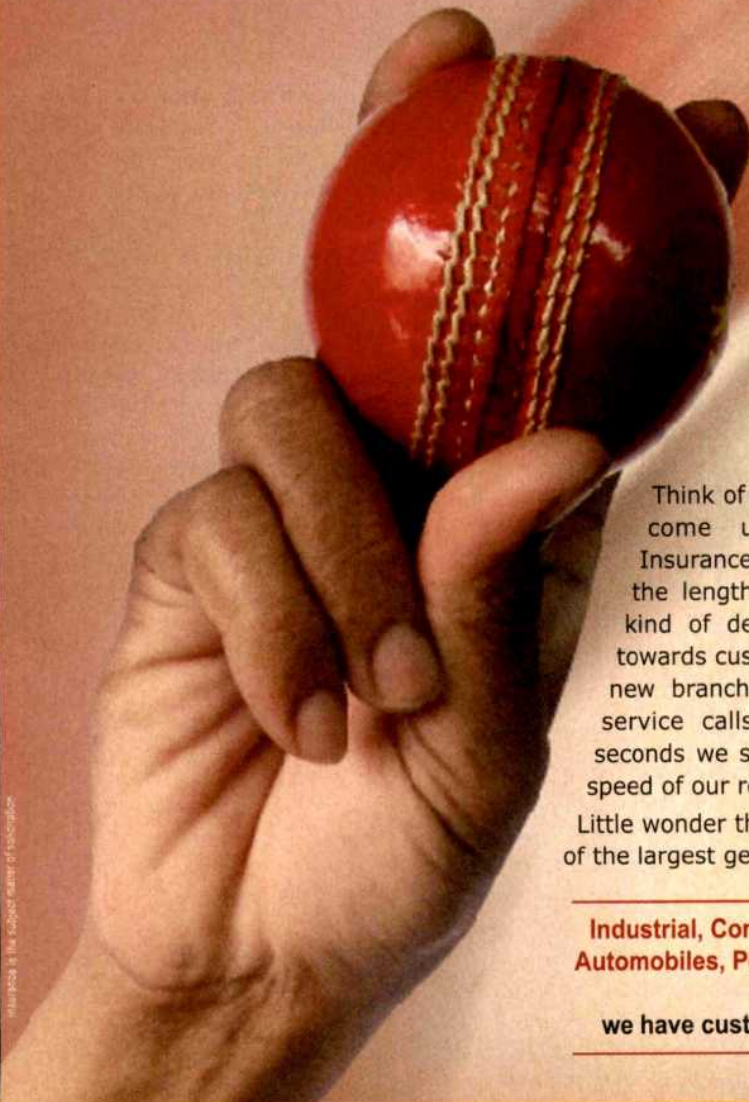
organisations. Further, allowing institutional investors to short sell and domestic investors to invest in overseas securities would help take India's capital markets a step forward as would the recognition of financial services as India's next growth engine.

From a sectoral perspective, cement has been negatively impacted due to differential duty structure. IT companies would now be covered under MAT, effectively increasing their tax rates. Though excise duties have been raised for cigarettes, no imposition of VAT would be viewed as a positive. The extension of the Technology Upgradation Fund is a positive for textiles companies.

Lastly, let me dwell on some of my disappointments. Given the robust growth in tax collections and much better tax compliance, the Finance Minister could have done much more on the direct taxes front. The additional cess of 1 per cent could have been avoided, the increase in exemption limit for non-corporate assesseees could have been much more and the possibility of a cut in tax rates could have been explored. The imposition of dividend distribution tax on mutual funds and the increase in distribution tax on dividend paying companies could have been avoided.

Motilal Oswal is Chairman,
Motilal Oswal Securities

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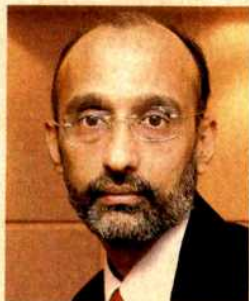
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COLUMN | NARAYAN S.A.

A DELICATE BALANCING JOB



"The Finance Minister had to keep the growth engine running, take tough steps to counter inflation and also raise resources for agriculture, healthcare, education and infrastructure. He has succeeded in his job"

THE FINANCE MINISTER HAD HIS job cut out in this Budget. India has grown at an impressive rate of 9 per cent in 2005-06. Advance estimates tell us we are going to better it this year. However, this growth has also led to bank credit expanding at 29.6 per cent during 2006-07. Consequently, it is putting upward pressure on prices. The Finance Minister has tried to focus on keeping India on this growth path clearly keeping an eye on inflation. He has managed to contain the revenue deficit at 2 per cent and the fiscal deficit at 3.7 per cent. Both figures are within last year's Budget estimates, which is very commendable.

The Finance Minister also stressed on the need for higher growth in agriculture for sustainable and equitable growth. Education was also high on his agenda. Consequently, we have seen a range of programmes with higher outlays being announced for the sector. Bharat Nirman and Sarva Shiksha Abhiyan have seen higher target outlays for the current year.

The idea of trying to channel a small portion of the foreign exchange reserves towards infrastructure is a good step.

The Budget has also mooted the idea of a debt management office for managing government funds, which is a step in the right direction.

The status quo on service tax rates is a welcome step. However, inclusion of commercial rentals in the service tax net will hurt Corporate India, which is already reeling under high real estate prices and shortage of space. The Finance Minister has reduced peak import duty on all non-agricultural goods by 2.5 per cent, moving towards ASEAN rates.

One of the progressive moves in the Budget is the introduction of exchangeable bonds, which will help promoters fund growth by leveraging on their equity stake in the companies. This will help Corporate India to expand without diluting the promoter's stake in the companies.

In keeping with his intention of containing inflation, the Budget has introduced differential excise duty structures for cement. While cement bags with retail prices of lower than Rs 190 will attract a lower excise duty, those with higher prices will attract significantly higher duties. While this has been introduced to keep cement prices in check, supply-demand dynamics may have a more important influence on cement prices rather than pure fiscal disincentives.

On the capital markets front, the move of not increasing the STT and capital gains tax on equity markets is a welcome step. On the other hand, the markets were exp-

ecting clearer guidelines to distinguish between a trader and an investor, which was not given. Dividend distribution tax amounts to double taxation. We hope the Finance Minister will reconsider the proposed increase in this tax from 12.5 to 15 per cent. Again, FBT on ESOPs needs to be reviewed, as it is an important tool for emerging companies to attract talent at reasonable cost, especially when they are competing globally.

On the corporate taxes front, IT services companies have been brought under the MAT regime. The IT industry is now becoming a mature industry from a sunrise industry and it is time for them to contribute to the exchequer for the development of India.

The Finance Minister marginally tweaked direct tax rates, by raising the education cess by 1 per cent. This additional revenue will be used to fund programmes on secondary education.

The Finance Minister had to do a delicate balancing job in this Budget. He had to keep the growth engine running, take tough steps to counter inflation and also raise resources for the priority areas of agriculture, healthcare, education and infrastructure. We believe he has succeeded in his job to a great extent. ■

Narayan S.A. is Managing Director, Kotak Securities



Sectoral Analysis

- AUTO & AUTO COMPONENTS
- BANKING & FINANCIAL SERVICES
- CEMENT
- FMCG/DURABLES
- HOSPITALITY & TOURISM
- IT & ITES
- MEDIA & ENTERTAINMENT
- OIL & GAS
- PHARMACEUTICALS
- POWER
- REAL ESTATE
- ROADS
- STEEL & MINERALS
- TELECOMMUNICATIONS
- TEXTILES

A BUSINESS TODAY-ERNST & YOUNG ANALYSIS

I SECTORAL ANALYSIS

A Great Gig For All

A *Business Today*-Ernst & Young analysis of Budget 2007 impact on key sectors.

FINANCE MINISTER P. CHIDAMBARAM ACTUALLY SAID IT IN SO MANY WORDS. He mentioned the time (15-20 minutes) he spent announcing proposals meant for the agricultural sector. Nothing wrong with that; but industry is disappointed that he, largely, chose to maintain *status quo* on other sectors of the economy. But some sectors, like textiles, will benefit. Says Gautam Hari Singhania, Chairman and Managing Director, Raymond: "The Budget has generally been positive for the textile industry. The extension of the TUF Scheme will expedite the release of subsidies. And increased allocations for textile parks is very welcome as it will boost the setting up of additional capacities."

Banking, steel, oil and gas and the roads sectors have also emerged as winners in this Budget. "Budget 2007-08 will play an important part in maintaining India's economic momentum," says K.V. Kamath, Managing Director and CEO of ICICI Bank, India's largest private sector bank. "It is a fine balance of resource allocation across various sectors of the economy and focusses on growth," he adds. Ravi Uppal, Vice Chairman and Managing Director, ABB India echoes these thoughts. "Bringing down the peak customs duty to 10 per cent, the renewed commitment to phasing out CST and the success of VAT are positive indicators that the government remains committed to the reforms process," he says.

But large sections of India Inc. feel let down. The pharmaceuticals and healthcare sector, which was hoping for a leg up in this Budget, makes no bones about its unhappiness. "The pharmaceuticals industry was completely off the Finance Minister's radar last year. So, we were hoping to be compensated with a 'Dream Pharma Budget' this year. But, alas, that was not to be," moans Ranjit Shahani, President, Organization of Pharmaceutical Producers of India and Vice Chairman and Managing Director, Novartis India. The hospitality industry is also upset—at the fact that only hotels in the National Capital Region have been given tax incentives.

But, to be perfectly fair to Chidambaram, it must be admitted that there's little in this Budget that can actually be termed as negative or uncalled for. Here, we look at what the Budget holds for 15 important sectors.

SECTORS
2007 WATCH

- AUTO & AUTO COMPONENTS
- BANKING & FIN. SERVICES
- CEMENT
- FMCG/DURABLES
- HOSPITALITY & TOURISM
- IT & ITES
- MEDIA & ENTERTAINMENT
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Team Ernst & Young: Dilip Khanna, Ajit Krishnan, Puja Gupta, Roli Gupta, Neha Bakshi [Project leaders]; Industry Experts: Amitabh Singh, Amit Jain [Auto & Auto Components]; Ajit Krishnan, Mona Chhabra [Real Estate, Hospitality]; Hitesh Sharma, Navroz Mahudawala [Health Sciences]; Vishal Malhotra, Nitin Gupta [Telecom]; Ravi Mahajan, Ajay Arora [Oil & Gas]; Pranav Sayta, Payal Sethi [Media & Entertainment]; Hitesh Wadhvani, Sonali Sinha [Banking & Financial Services]; Rajesh Dhume, Nitin Gupta [Cement]; Ritesh Chandra, Pares Parekh [FMCG & Durables]; Bharat Varadachari, Ashish Basil [IT & ITES]; Rajesh Dhume, Sonali Sinha [Textile]; Rajesh Dhume, Rajesh Samson [Roads]; Rajesh Dhume, Chola Desai [Power]; Navin Vohra, Sanjeev Jain [Steel & Metals]

For a complete analysis of the 15 sectors by Ernst & Young visit www.business-today.com

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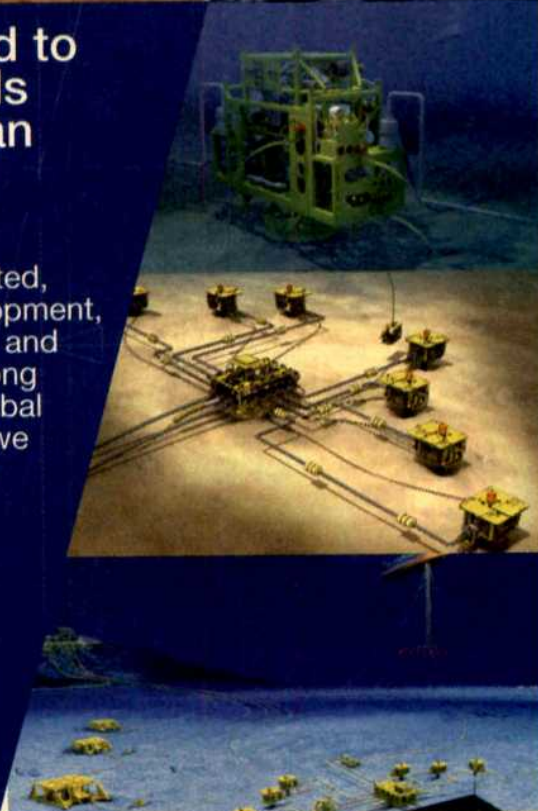
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I AUTO



2007 WATCH

Vrooming Ahead

THE AUTOMOBILE INDUSTRY CONTINUED TO REMAIN IN the limelight in 2006-07. The momentum was provided by Budget 2006, which slashed the excise duty on small cars by 8 per cent. For the first time in history, domestic vehicle production crossed the 10-million-mark in a calendar year (2006). Passenger vehicles, two- and three-wheelers recorded double digit growth while the CV segment registered the highest growth of 37.15 per cent during April-December 2006. The auto ancillary industry recorded a 17 per cent y-o-y growth in sales and 45 per cent y-o-y growth in profits for the first nine months of FY 2007. The industry also witnessed big ticket transactions, such as M&M's acquisition of a stake in Jeco Holding and Warburg Pincus' acquisition of 9 per cent stake in Amtek Auto. Robust sectoral performance and outlook has resulted in both domestic and global companies announcing significant investment plans. The Government's draft Auto Mission Plan (AMP) aims at doubling the contribution of the automotive sector to GDP to 10 per cent (i.e. a turnover of \$145 billion) by 2016. Double-digit growth rates are expected across all segments of the industry.

SECTORAL IMPACT

- ▶ Customs duty cut will help reduce costs of imported inputs. This will increase demand for cars in the domestic market.
- ▶ Amendment in valuation rules for job-work will make life less attractive for units engaged in contract work for other manufacturers and also increase input costs.
- ▶ Reduction in excise duty on petrol and diesel to have an impact on consumer sentiment (this, though, has not resulted in any immediate reduction in petrol and diesel prices).
- ▶ 1 per cent cut in CST will improve margins, reduce prices and spur demand.



ANJANIKUMAR CHOUDHARY

PRESIDENT, FARM EQUIPMENT SECTOR/ MAHINDRA & MAHINDRA

"The Finance Minister's focus on inclusive growth, particularly the thrust on the rural sector, will be good for the farm equipment business, including tractors"

CORPORATE IMPACT

- ▶ **Bajaj Auto:** There is no direct impact, but the slight reduction in peak customs duty may benefit the company since it imports certain components (like alloy wheels).
- ▶ **Hero Honda:** The increased focus on the rural sector could result in higher rural sales (Bajaj Auto will also benefit).
- ▶ **Tata Motors:** The continuing focus on developing world class highways is likely to result in an uptick in the sales of Tata Motors' commercial vehicles, particularly those with large tonnages.
- ▶ **Maruti Udyog:** There is no direct impact on the country's largest automaker. The high levels of localisation it has achieved means it will get few benefits from the reduction in peak customs duty.



VIVAN MEHRA



BANKING



2007 WATCH

The Going Gets Better

THE BANKING AND FINANCIAL SERVICES SECTOR HAS grown remarkably during the current financial year. Demand for credit, both from corporate and retail customers, has grown 31 per cent. However, the country's leading banks have also increased both their lending and deposit rates. Despite this, there is little evidence of the burgeoning credit demand tapering off. The key challenge for the sector will be to raise sufficient resources to meet the growing credit demand, while retaining a reasonable spread. There were widespread expectations that the Budget would exempt income from interest on bank deposits from income tax; this would have improved deposit mobilisation by making FDs as attractive as other products. This expectation, however, was belied. The Insurance Bill, which proposes to increase the FDI cap in the insurance sector from the current level of 26 per cent to 49 per cent, is expected to be tabled in the ongoing Budget session of Parliament.

- ▶ Pass-through status to venture capital funds limited to only income earned from investments in specified industries.
- ▶ DDT on income distributed by money market and liquid fund MF schemes raised to 25 per cent. This is likely to result in huge outflows from liquid funds owing to reduced tax arbitrage.
- ▶ Government to acquire RBI equity in SBI for Rs 40,000 crore.
- ▶ Regional Rural Banks asked to undertake significant branch expansion.
- ▶ NABARD to be permitted to issue tax-exempt bonds up to Rs 5,000 crore guaranteed by the Government.
- ▶ Institutions allowed to short sell and undertake securities lending and borrowing to facilitate delivery.

SECTORAL IMPACT

CORPORATE IMPACT

▶ **State Bank of India:** It will benefit from the 25 per cent dividend distribution tax levied on money market and liquid MFs as bank FDs will become more attractive and allow it to mobilise larger amounts of money.

▶ **Punjab National Bank:** It will benefit from the increased rural thrust as it owns over a dozen of the largest regional rural banks.

▶ **ICICI Bank:** Its innovative rural delivery channel (read: franchisee model) is ideally placed to tap the rural opportunities thrown up by this Budget.

▶ **HDFC Bank:** It has one of the largest SME portfolios in the banking sector; so an increased focus on this segment, as envisaged in the Budget, will benefit the bank.



NARAYAN BALILA

K.V. KAMATH
MD & CEO/ ICICI BANK

"The financial sector policies announced in the Budget are in consonance with the current supportive environment. In particular, the decision to use the PAN number as the sole identification number in capital markets transactions is a welcome move"



I CEMENT



2007 WATCH

A Stellar Performance

INDIA IS THE SECOND-LARGEST CEMENT PRODUCER IN the world, with a capacity of approximately 160 million tonnes (and 95 per cent capacity utilisation in 2006). The current financial year, during which domestic consumption has grown more than 10 per cent, has been one of the best for the industry. A reduction in customs duties on limestone and gypsum, increased allocation of coal blocks to cement companies and an increased thrust on infrastructure development are some of the key growth drivers. Cement prices rose 32 per cent during the year due to the robust demand and limited capacity additions. The industry witnessed consolidation activity—such as the acquisition of a 18.4 per cent stake in Gujarat Ambuja by Holcim for \$618 million (Rs 2,785 crore) and the buyout of a 51 per cent stake in Mysore Cement by Heidelberg for \$94 million (Rs 423 crore). Major capacity additions are planned over the next 3 years to meet the burgeoning domestic demand. A ban on the export of cement is also on cards.

SECTORAL IMPACT

- ▶ The 31.6 per cent increase in allocation towards Bharat Nirman and increase in outlay for the National Highway Development Programme to Rs 10,667 crore augurs well for the industry.
- ▶ Excise duty on cement reduced from Rs 400 per tonne to Rs 350 per tonne if the retail sales price is Rs 190 per 50 kg bag or below. But this may not benefit the cement industry, as it will have to take a substantial hit on the bottom line at this price level. Excise duty on cement costing more than Rs 190 per bag has been raised to Rs 600 per tonne. This may affect demand.
- ▶ Improving GDP growth rate and continued focus on infrastructure will sustain the cement consumption rate.

CORPORATE IMPACT

- ▶ **Gujarat Ambuja:** Being a large player, Gujarat Ambuja will be in a position to pass on the higher excise duty on cement to the consumer, so, there will not be much of an impact on its bottom line or margins.
- ▶ **ACC:** Like other large players, ACC, too, will not be much affected by the higher excise duty on cement.
- ▶ **UltraTech Cement:** The decision to hike excise duties for cement bags that are sold at more than Rs 190 per bag could affect the company, though it is likely to pass it on to the consumer.
- ▶ **India Cements:** The higher excise duty will hit it hard. Being a smaller player, it will not be easy for the company to pass on the increased price burden to its customers.



D.D. RATHI

WHOLE TIME DIRECTOR & CFO/ GRASIM INDUSTRIES

"The increase in excise duty is not good news. There is a limit of Rs 190 beyond which excise will be levied at Rs 600 per metric tonne. Even if there is an increase in cost inputs because of inflation, prices will rise beyond Rs 190. I do not think the decision is good for the industry"

I FMCG



2007 WATCH

SECTORAL IMPACT

Riding on a Bumpy Road

STABLE GROWTH WAS THE MANTRA FOR THE FMCG sector, which recorded a revenue growth of 22 per cent over the past year. But margins remained under pressure due to an increase in input costs on the back of higher crude prices; this, however, was partly mitigated by an increase in the prices in certain categories such as soaps and detergents (after years of price wars). The industry is banking upon increased consumer spending and greater penetration of organised retailers to provide it with a growth impetus. The durables sector, meanwhile, recorded a growth of about 10 per cent during 2006-07, which is consistent with past trends. As in FMCG, margins continued to remain under pressure on account of higher input prices, greater advertising costs and the threat of cheaper imports (especially from FTA jurisdictions). However, industry players remain optimistic on the prospects of consumers "up-trading" to higher-end products; they are also hoping that specialised durable retail formats will provide a fillip to sales.

- ▶ Rationalisation of excise on footwear parts, umbrellas, and exemption from excise for certain packed biscuits, food mixes and water purification devices will benefit many FMCG companies.
- ▶ Reduction of customs duty on food processing machinery, non-agricultural items, textiles, pet food, sunflower oil, umbrella parts and exemption of additional duty of custom on edible oil will further help FMCG companies.
- ▶ Fringe Benefit Tax not to be levied on expenditure incurred towards display of products and distribution of samples.
- ▶ Increase in excise levies on cigarettes, *bidis* and tobacco products is unlikely to result in lower demand.

CORPORATE IMPACT

- ▶ **Hindustan Unilever:** Reduction of CST by 1 per cent will serve to bring down costs and provide some respite to its margins. Also, the removal of additional CVD on edible oils will result in savings.
- ▶ **Marico:** The reduction in CVD on imports will have only a marginally favourable impact. But the service tax on rents will shave off a couple of crore from its bottom line.
- ▶ **Britannia Industries:** It will benefit from the reduction in excise duty on biscuits. The increased dividend distribution tax will affect it only marginally.
- ▶ **Dabur:** Exclusion of expenditure on free samples and displays from the scope of FBT will help the company. Incentives on Ayurvedic products will drive top line growth.



YASHWANT NEGI



MILIND SARWATE
CHIEF FINANCIAL OFFICER/ MARICO

"The Budget will improve the quality of life at the bottom of the pyramid. This will increase disposable income, consumption and FMCG demand"

I HOSPITALITY & TOURISM



2007 WATCH

Boom Time

THE HOSPITALITY SECTOR CONTINUED ITS STRONG growth in 2006-07. In the premium category, RevPARs (revenues per available room) grew 15-57 per cent (y-o-y) across 10 major cities (April-December, 2006). Foreign tourist arrivals surged 14 per cent during this period and the domestic travel segment also showed an uptrend. Given this buoyancy, hospitality industry players are expanding in order to acquire a pan-India footprint and new players are entering the market. Huge concessions have also been announced for 2-, 3- and 4-star hotels in the National Capital Region. This will increase the supply of rooms in the NCR and correct hotel tariffs in the medium term. The flip side of the boom is that land prices have gone up, straining the viability of all hotels in general and budget hotels in particular. The issue of high land prices is being addressed by developers through mixed use developments. To boost the development of budget hotels, additional initiatives such as public-private partnerships, cost-effective availability of land and pan-India tax incentives are required. The Budget is silent on all these counts.

SECTORAL IMPACT

- ▶ 100 per cent tax holiday for five years provided to companies engaged in the business of hotels (2-, 3- and 4-star categories) and convention centres (details to be prescribed) in specified areas (Delhi, Gurgaon, Faridabad, Gautam Budh Nagar and Ghaziabad), if construction and operation starts between April 1, 2007 and March 31, 2010. This is expected to provide a fillip to the hospitality industry in the NCR
- ▶ Total outlay for tourism infrastructure increased from Rs 423 crore in 2006-07 to Rs 520 crore.



CAPT C.P. KRISHNAN NAIR
CHAIRMAN/ THE LEEA GROUP

"It's a favourable Budget, but nothing spectacular. Singling out 2-, 3- and 4-star hotels for incentives, though, is unfair; he should have extended the tax holiday to all hotels"

CORPORATE IMPACT

- ▶ **ITC Welcomgroup:** The Budget will fuel the growth of the chain's budget brand, Fortune Park Hotels. And though it already has a presence in the NCR, it is reportedly looking for more properties there.
- ▶ **Indian Hotels:** The Budget will hasten its entry in the budget hotel segment in the NCR.
- ▶ **East India Hotels:** There is no impact on the Group's flagship 5-star chain, but the incentives granted to 2-, 3- and 4-star hotels will come in handy for its lower-end Trident brand.
- ▶ **The Grand Bharat Hotels:** Again, its five-star properties will not be impacted. But the group is actively eyeing an entry into the budget segment within the next one year; so, the Budget proposals will come as a shot in the arm for it.



SOUNIK KAR

IT & ITES



2007 WATCH

SECTORAL IMPACT

Grappling with the Talent Crunch

THE INDIAN IT-ITES SECTOR CONTINUES TO CHART double-digit (over 28 per cent) growth, and is expected to close 2006-07 with revenues in excess of \$39 billion (Rs 1,71,600 crore). The engineering, R&D services and domestic markets, besides, of course, the traditional software and IT services, have been the key contributors to this growth. In line with global trends, the Indian IT sector has seen significant outbound and domestic M&A activity. Large players like TCS have acquired Pearl and Wipro has bought out New Logics. Within the country, the Essar Group has acquired Global Vantage and EXL has taken over Inductis. Despite robust growth, the sector faces some key challenges—like availability of skilled manpower, appreciation of the Indian rupee and availability of appropriate infrastructure to support future growth. The immediate concern is the continuation of the STPI Tax benefits after 2009 and its possible impact on the attractiveness of India as an offshoring destination.

- ▶ No reference to extension of tax holidays to STP/EOU units beyond March 2009. MAT (11.33 per cent) now levied on STP/EOU units (but not SEZ units).
- ▶ ESOPs are subject to FBT, burdening employers with a tax cost of 33.99 per cent on the difference between fair market value on the date of exercise of options and price paid.
- ▶ Test of export made simple: a service will be considered to be exported if it has been "provided from India and used outside India". This brings clarity to a vexed issue.
- ▶ Income earned by venture capital funds will be exempted from tax only if the income has been earned from IT hardware and software development. ITES/BPO segments not covered.

CORPORATE IMPACT

- ▶ **Infosys Technologies:** The imposition of MAT means Infosys' net margins will be hit by 1.5 per cent. The imposition of FBT on ESOPS will take its toll.
- ▶ **Wipro:** The company is yet to calculate the precise impact of the Budget on its margins, but it's certain that MAT and the tax on ESOPS will shave quite a few crore from its bottom line.
- ▶ **3i Infotech:** Increased government spends on e-governance will benefit the company. The impact of the imposition of FBT on ESOPS and MAT, though, is not yet clear.
- ▶ **TCS:** Since it pays tax in other countries, it remains to be seen whether the MAT burden can be off set to some extent. Impact on margins yet to be calculated.



B. RAMALINGA RAJU

CHAIRMAN/ NASSCOM AND SATYAM COMPUTER

"The Budget is disappointing. We believe that the introduction of MAT will negatively impact most companies. It seems as if the government feels that the IT industry is now a mature one and so does not require further benefits. But this is a wrong impression"

I MEDIA & ENTERTAINMENT



2007 WATCH

Action-packed Growth

THE INDIAN MEDIA AND ENTERTAINMENT (M&E) SECTOR continued to grow at 14 per cent. The television segment witnessed maximum activity last year—the Conditional Access System (CAS) was finally implemented in three metros with effect from January 1, 2007. In television broadcasting, new channels continued to be launched in the news and sports genres. The film segment embraced corporatisation, attracting, in the process, private equity and institutional financing. The ad spend in 2006 was about 0.34 per cent of GDP (Rs 14,500 crore), an increase of 10 per cent over the previous year. New distribution platforms and digital technology created new revenue streams for the segment. There has been a second coming for the print segment; this was driven by rising literacy levels, launch of new brands and a favourable regulatory environment. The inefficiencies in distribution that have existed in films, television broadcasting or publishing, are gradually easing out, thereby making the entire industry more transparent and profitable. The launch of DTH will further revolutionise the sector.

SECTORAL IMPACT

- ▶ Air space above Indian territory to be brought under the tax net with retrospective effect. This may impact foreign satellite companies and channel operators, depending on how the law is framed.
- ▶ Rate of TDS on commissions, brokerage and professional service charges increased to 10 per cent. This could impact the cash flows of Indian content producers commissioned by non-resident companies to produce television content.
- ▶ Service tax to be levied on sale of space in Yellow Pages and commercial catalogues. However, sale of space in newspapers continues to remain non-taxable.

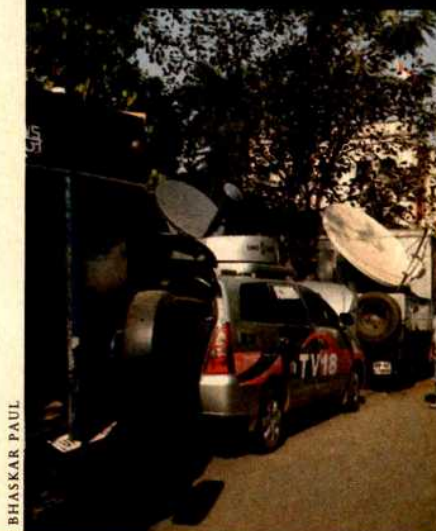


RONNIE SCREWVALA
CEO/UTV

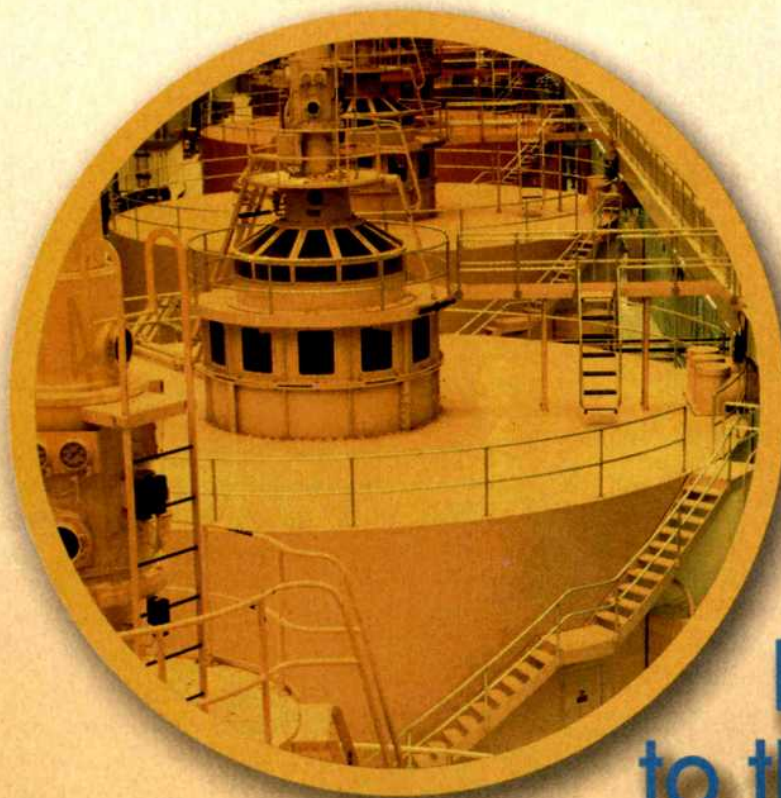
"There is nothing in the Budget for the media, though we were looking for some parity between the print media and the electronic media. Also, the introduction of service tax on content needs to be studied in detail"

CORPORATE IMPACT

- ▶ **Zee Telefilms:** The Budget will not have a major impact on the company.
- ▶ **PVR Cinemas:** The imposition of Service Tax on commercial property rents will affect the company—as its business is based on the rental model—and impact its margins to that extent.
- ▶ **Prime Focus:** Neutral impact. The company has already factored in the import duties that it pays currently and then projected the future earnings. Therefore, its projections will not be affected.
- ▶ **Adlabs Films:** Neutral impact on the film segment. However, there could have been some savings for Adlabs Radio as imported hardware will now become cheaper.



BHASKAR PAUL



Listen to the pulse of Industry across West Bengal

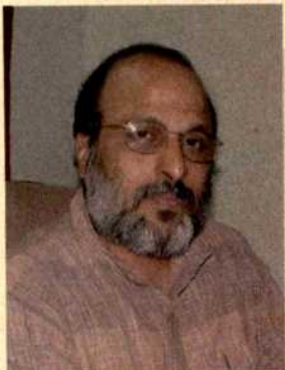
It's beating stronger than ever before

Front ranking industries - iron and steel, chemicals and petrochemicals, electrical, electronics, software and telecommunications, jute and textile, engineering goods, etc. Kolkata is an acknowledged IT Hub with major investors and big brand names located here. Growth of exports from Kolkata Software Park reached 70 per cent.

627 of 684 downstream units of Haldia Petrochemicals Project are located in West Bengal. Working small scale units number 27.7 lakh. Employment generation stands at 58.7 lakh. Massive Infrastructure development has been taken up – roads, highways, bridges, power plants.

Government of West Bengal

CSR 2.0



Dr. Jayakumar Christian
National Director,
World Vision India

NGOs and Corporates - equal partners in CSR

Warren Buffet made history with the donation of \$ 37 billion to the Bill and Melinda Gates foundation and created the world's largest pool of private cash to continue the foundation's work: "to reduce inequities and improve lives around the world." The Economist

coined a phrase for this: Billanthropy.

Very often corporate philanthropy and corporate social responsibility are terms and concepts that are used interchangeably. While the business case for CSR varies across a range of objectives, the greatest impact is visible through sustainable development programmes in partnership with NGOs.

And this is where humanitarian organisations like World Vision play a key role. A case in point is the tie up between Johnson & Johnson and World Vision in the Asia Pacific where employees of the pharma major would help fund the education and provide scholarships for higher studies for over 60 children in India, Philippines, Hong Kong, China and Indonesia.

Mr. Jesse Wu, International Vice President for the international pharma major said, "We select partners who are the best in the field and who further J&J's mission in philanthropy. Partnering with World Vision which works at the grassroots among the poor in the country in areas of development, health, children, education and women aligns perfectly with J&J's community initiatives which are built by values."

To name a few other corporates, Pfizer provided micro finance assistance of Rs.1 crore for marginal businesses in the tsunami-affected areas in

Nagapattinam. Even public sector agencies such as GAIL have partnered with World Vision to provide water and sanitation programmes in the Melghat area in Maharashtra.

The changing face of the global economy where knowledge and intellectual capital are the most sought after assets brings a new twist into the need to partner at the social level for organisations. In the recruitment scenario, rather than companies interviewing candidates, these knowledge professionals are "interviewing" organisations before choosing the one they want to work for. The corporate philanthropy practised by organisations form a key part of this profiling.

But one of the major challenges of CSR for NGOs is the fact that it is seen as handing out money to look good in the media. A sure sign of this would be the fact that CSR falls under the PR or corporate communications departments in an organisation.

The language of philanthropy needs to change. CSR is not just about handing out money, but also about sharing of resources, technology and know-how for the benefit of sustainable development of communities.

In October last year 112 staff from the four branches of Colliers International, a real estate company spent a day making schools and parks conducive for children. Each group worked on things like cleaning and painting the damaged classrooms and play areas, educational paintings on the classroom walls, construction of compound walls as their contribution towards helping children. But examples like these are few and far between.

As CSR matures, the focus should shift from regarding NGOs as CSR 'outsourcers' to partners in building sustainable communities around the country and world. ■



As CSR matures, the focus should shift from regarding NGOs as CSR 'outsourcers' to partners in building sustainable communities around the country and world.

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World Vision

I OIL & GAS



2007 WATCH

Simmering Success

ACCCELERATED M&A ACTIVITY, GROWING DEMAND, AN evolving regulatory environment, and competition for access to new hydrocarbon reserves—2006-07 was an eventful year for the Indian oil and gas sector. The New Exploration and Licensing Policy VI (NELP VI) and Coal Bed Methane III (CBM III) licensing rounds witnessed record participation; and OVL acquired interests in nine overseas blocks during the year. Inbound investments also increased; significant among them were Chevron's acquisition of a 5 per cent stake in Reliance's new refinery at Jamnagar, L.N. Mittal's purchase of a 49 per cent stake in HPCL's Bhatinda refinery, and ENI's upstream asset swap agreement with ONGC. Meanwhile, India's gas market is coming of age. Reliance, GSPC and ONGC have struck significant reserves in the KG basin; additional capacities are being built by Petronet LNG at Dahej and Kochi; and there has been a revival of interest in the Iran-Pakistan-India (IPI) pipeline project. All of these are likely to result in an increase in supply of gas from 90 MMSCMD at present to 200 MMSCMD by 2009.

- ▶ The proposal to extend service tax to services rendered for mining of oil and gas will impact the upstream industry, though the proposed reduction in excise duty on petrol and diesel from 8 to 6 per cent will benefit oil marketing companies.
- ▶ Separately, in line with the recent gas discoveries in India, tax concessions offered to cross-country natural gas distribution networks will provide a much-needed impetus to the pipeline sector.
- ▶ The proposal exempting bio-diesel from excise duty will spur demand for it and reduce India's dependence on fossil fuels. Over time, this will also pare India's oil import bill.

SECTORAL IMPACT



R.S. SHARMA

CHAIRMAN AND MANAGING DIRECTOR/ ONGC

"The Budget, on the whole, is a balanced one. However, ONGC does take a net marginal hit of around Rs 50 crore, mainly on account of dividend tax, since we are the highest dividend-paying company in the country"

CORPORATE IMPACT

- ▶ **Indian Oil Corporation:** India's largest company will gain Rs 1,250 crore from the lower excise duty on petrol and diesel.
- ▶ **Reliance Industries:** The company will benefit from the infrastructure status granted to gas pipelines and also gain from the cut in excise duties on petrol and diesel.
- ▶ **ONGC:** This Navratna will take a marginal net hit of around Rs 50 crore after netting out its gains and losses on account of dividend distribution tax, education cess, customs duty reduction and CST.
- ▶ **GAIL:** The company will suffer a small dent in its bottom line due to the increase in the dividend tax rate. But the grant of infrastructure status to the pipeline sector will reduce costs.



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I PHARMACEUTICALS



2007 WATCH

Focus on Rural Markets

THE INDIAN PHARMACEUTICAL INDUSTRY IS RANKED AS fourth by volume and thirteenth by value in the world and the country is among the top 5 manufacturers of bulk drugs. India is now a destination of choice for international companies for outsourcing their R&D and manufacturing requirements. Contract Research and Manufacturing Services (CRAMS) has become a major revenue driver for many Indian pharmaceutical companies. A majority of the deals in this sector is driven by the CRAMS model (for example, Dishiman's acquisition of Carbogen and Roche's acquisition of DRL's API business). Meanwhile, Indian pharma majors have made some large acquisitions to gain entry into new markets. These include Dr Reddy's buyout of betapharm, Germany, for \$500 million (Rs 2,250 crore) and Ranbaxy's acquisition of Terapia for \$250 million (Rs 1,125 crore). The domestic market is expected to grow at 14-15 per cent over the next 5 years. Within this, companies are expected to continue their focus on rural India which is growing at almost 40 per cent.

SECTORAL IMPACT

- ▶ 150 per cent weighted deduction on R&D expenditure extended by 5 years up to March 31, 2012.
- ▶ Concessional customs duty rate of 5 per cent and nil excise duty on specified items such as scientific and technical instruments extended to all registered research institutions.
- ▶ Clinical trials of new drugs by Clinical Research Organizations approved by Drug Controller General of India exempt from service tax.
- ▶ Basic customs duty on general medical equipment and certain chemicals (including active pharmaceutical ingredients) reduced from 12.5 per cent to 7.5 per cent.

CORPORATE IMPACT

- ▶ **Ranbaxy Laboratories:** It will benefit from the exemption of clinical trials from the service tax net, though the extension of FBT to ESOPs will hit it, and others, hard.
- ▶ **Cipla:** The increased focus on immunisation programmes will help the company.
- ▶ **Biocon:** It will gain from extension of the weighted average deduction of R&D expenditure but, like others, could be hurt by ESOPs being brought under the fringe benefit tax (FBT) net.
- ▶ **Apollo Hospitals:** Will, like most other leading hospital chains, gain from the reduction in import duties on medical equipment as it is expanding quite rapidly. Also, the provisions on health insurance could generate greater business for it.



SUMEET INDER SINGH



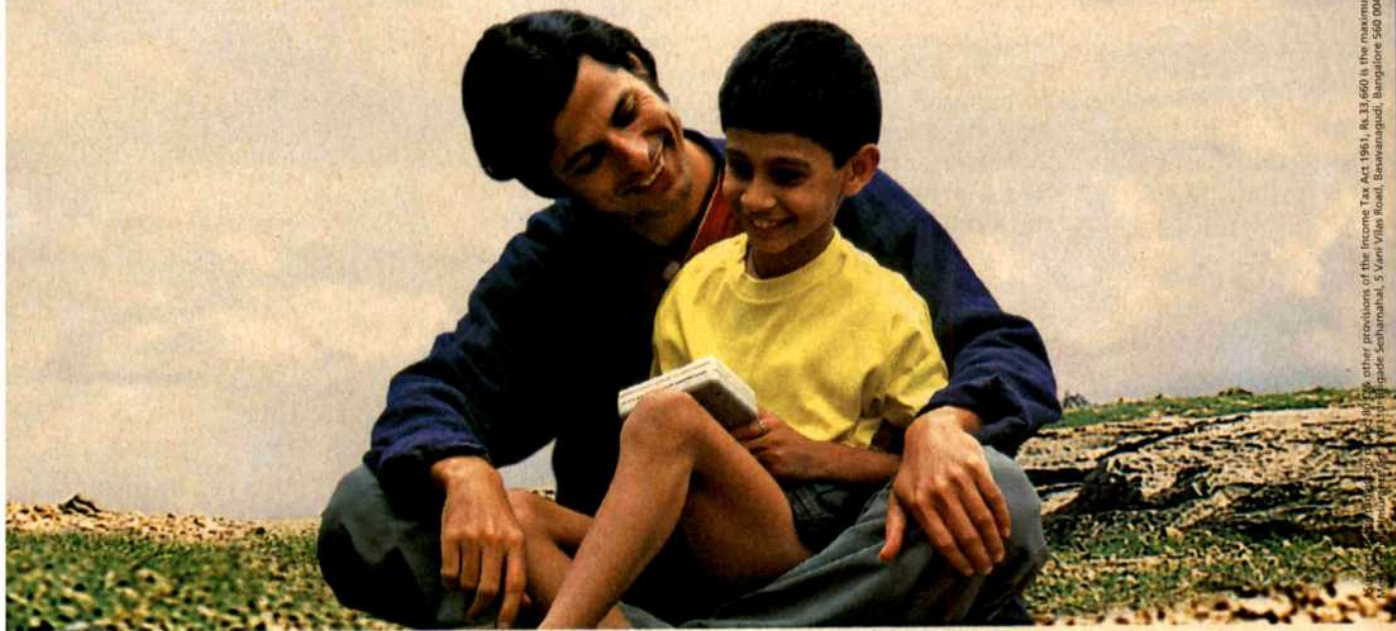
SATISH REDDY

MD & COO/ DR REDDY'S LABORATORIES

"There are a few positives but there's nothing in terms of bold moves that will change the industry's growth trajectory or decisively impact public health. It is an opportunity lost to provide a major thrust to the sector"

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POWER



2007 WATCH

Lighting for Tomorrow

THE YEAR 2006 SAW A MAJOR THRUST ON LARGE transmission and mega power projects; additional capacity of 5,093 MW was created and power generation grew 7.2 per cent during the year. Increased private sector participation in coal mining and a thrust on imported coal-based power is expected to provide a further fillip to power generation. Major initiatives in line with the government's policy to accelerate capacity additions in power generation included the two Ultra Mega Power Projects of 4,000 MW each in Mundra and Sasan. These projects, entailing an investment of \$8 billion (Rs 35,200 crore), were awarded to Tata Power and Lanco Power, respectively. Improvements in the distribution business through schemes like Accelerated Power Development and Reform Programme (APDRP) and strengthening the inter-regional grid were some of the key initiatives undertaken during the year under review. The Budget proposals will come as a shot in the arm for this sector.

SECTORAL IMPACT

- ▶ Ministry of Power has awarded two Ultra Mega Power Projects (UMPP) in Sasan and Mundra and two more UMPP will be awarded by July, 2007.
- ▶ Budgetary support for Accelerated Power Development and Reforms Programme increased from Rs 650 crore to Rs 800 crore.
- ▶ Allocation to Rajiv Gandhi Grameen Vidyutikaran Yojana increased from Rs 3,000 crore to Rs 3,983 crore.
- ▶ All coking coal, irrespective of ash content, to be fully exempt from customs duty.
- ▶ Tax holiday under Section 80 IA shall be available to all industrial undertakings, including power projects, which commence operations on or before March 31, 2008.



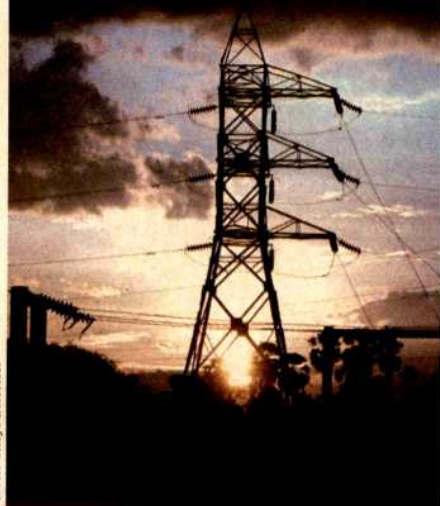
T. SANKARALINGAM

CHAIRMAN AND MANAGING DIRECTOR/ NTPC

"The Budget proposals will benefit us marginally. We will gain on the reduction in peak rate of customs duty from 12.5 per cent to 10 per cent as this will translate into a saving of Rs 25 crore for a 1,000 MW plant"

CORPORATE IMPACT

- ▶ **NTPC:** The reduction in CST will swell its kitty, but this will be partially offset by the increase in the education cess rate. Lower peak customs duty will lower the costs of its upcoming power plants at Farakka, Korba and Dadri.
- ▶ **Reliance Energy:** The company will be impacted by the increase in dividend distribution tax and the increase in the education cess rate.
- ▶ **Power Finance Corporation:** There will only be a marginal impact of Rs 10-15 crore on its bottom line due to the higher dividend distribution tax.
- ▶ **Power Trading Corporation:** The Budget will have a negligible impact on the company. The hike in the dividend distribution tax will cost it only around Rs 2 crore.



H.K. RAJSEKHAR

I REAL ESTATE



2007 WATCH

Wanted, More Transparency

THE YEAR 2006-07 HAS SEEN A SURGE IN DEVELOPMENT and funding activity in the real estate sector. Various companies have accessed both private equity and public markets to meet their needs for growth capital. A number of regional players have also scaled up their growth plans to increase their footprints in different parts of the country. Meanwhile, foreign inflows into the sector increased dramatically during the year. Industry estimates indicate that the share of real estate in FDI will be 26 per cent in 2006-07 compared to 10 per cent in the previous financial year. Further, more than \$20 billion (Rs 88,000 crore) of capital (in the form of dedicated REFs, IPOs, QIPs, private placements and FCCBs) has been raised and deployed in the Indian real estate market over the last 18 months. Real Estate Mutual Funds (REMFs), which are on the anvil, are expected to widen and deepen the market further. All this flow of institutional capital should act as a catalyst for increasing transparency, professionalism and corporatisation of the sector.

SECTORAL IMPACT

- ▶ National Housing Bank to introduce reverse mortgage; this product will provide liquidity to senior citizens.
- ▶ Regulations are being put in place for creation of mortgage guarantee companies.
- ▶ No extension of tax holiday under section 80-IB(10) for small housing projects; this will negatively impact developers and state housing boards. Also, service tax on rented properties will make malls and office spaces more expensive.
- ▶ Tax holiday benefits to industrial parks and SEZs under 80-IA will not be available upon amalgamation or demerger after March 31, 2007.

CORPORATE IMPACT

- ▶ **DLF:** It will be one of the biggest losers as rentals account for a major chunk of its income. The levy of service tax and removal of Sec 80-IB will also have an adverse impact.
- ▶ **Indiabulls Real Estate:** The levy of service tax on office space will have a negative impact on the company. And higher excise duty on cement will increase costs.
- ▶ **Unitech:** Like other real estate developers, the company will have to bear the brunt of rising excise duties on cement as its costs will rise.
- ▶ **Ansal API:** The Budget will result in costs increasing by 1 per cent that it may not be able to pass on to customers. The service tax to be paid on work contracts will also impact its bottom line.



BHASKAR PAUL



ANIL KUMAR
CEO/ ANSAL API

"The introduction of service tax on office space rentals and contract works, the increase in cement prices and removal of income tax deductions for qualified projects will hit the profitability of real estate companies"

I ROADS



2007 WATCH

In High Gear

THE ROADS PRIVATISATION PROGRAMME HAS ENTERED A new phase of maturity. There has been a number of encouraging developments, including significant updations in the Model Concession Agreement used by the National Highways Authority of India (NHAI), a move towards six-laning of the Golden Quadrilateral (eight sizeable GQ projects are currently being tendered out), significant interest for the first time from highway developers in western Europe and South East Asia in BOT highway projects in India and the large-scale entry of international equity funds in BOT projects. While national and state highways have benefitted from the increased focus on roadways, expenditure on urban roads remains inadequate. The central government will do well to consider developing model projects with private participation in the urban road sector. There were expectations that companies implementing projects under BOT would be exempted from MAT, but this hasn't happened.

SECTORAL IMPACT

- ▶ Separate window under Rural Infrastructure Development Fund will augment funds for the programme by Rs 4,000 crore a year.
- ▶ Road-cum-rail bridges in Bihar and Assam to be taken up as national projects; they will, hence, receive priority funding.
- ▶ Provision for National Highway Development Programme (NHDP) increased from Rs 9,945 crore to Rs 10,667 crore. This will allow the private sector to bid for larger contracts.
- ▶ India Infrastructure Finance Company (IIFCL) allowed to access/borrow funds from National Small Savings Fund.
- ▶ Service tax of 2 per cent on total value of works contract on services involved in the execution of a works contract to increase total costs.

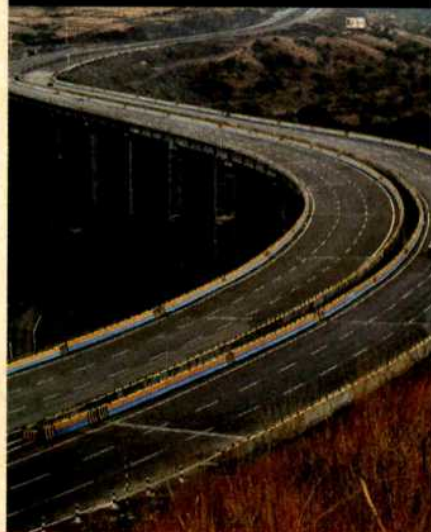


Y.M. DEOSTHALEE
CHIEF FINANCIAL OFFICER/ L&T

"The Budget proposals on infrastructure are cursory and inadequate. Increased excise duty on cement will eventually be passed on to the consumer. The result will be higher and unpredictable costs"

CORPORATE IMPACT

- ▶ **Larsen & Toubro:** The company is likely to gain from the increased allocation for National Highways Development Programme as it is expected to bid for and bag significant business in the next round of bidding.
- ▶ **Punj Lloyd:** The company is expected to bag more contracts to build National Highways and rural roads.
- ▶ **IVRCL:** The company is likely to gain from increased allocation for the National Highway Development Programme. Its power distribution business will also gain from higher spends on the Rajiv Gandhi Grameen Vidyutikaran Yojana.
- ▶ **Jaiprakash Associates:** The company will gain from increased allocations for roads, rural irrigation and power projects.



I STEEL & MINERALS



2007 WATCH

Metals on the Move

STEEL PRODUCTION IN INDIA GREW AT A CAGR OF 8.2 PER cent from 2001-02 to 2005-06. During this period, aluminium production increased at a CAGR of 11.9 per cent; the automobile, construction and consumer durables sectors were the key growth drivers. The growth rate in other metals was also equally strong. Greenfield and brownfield expansions (steel production is expected to increase from 38 MMTA in 2005 to 110 MMTA by 2012) and landmark M&A transactions (example: Tata Steel's acquisition of Corus for \$12.1 billion or Rs 54,450 crore, and Hindalco's acquisition of Novelis for \$6 billion or Rs 26,400 crore) have been on an upswing. India is fortunate to have large reserves of iron ore and bauxite which will drive large investments in this sector. The government now needs to focus on reducing the time required for regulatory clearances, improve transparency and increase expenditure on infrastructure. Meanwhile, the export tax on iron and chrome ores may affect the enthusiasm of some players, like South Korea's Posco, which is in the process of setting up a steel plant in Orissa, subject to it being allowed to export ore.

SECTORAL IMPACT

- ▶ Inclusion of underground coal gasification and coal liquefaction as "specified end use" for allotment of coal blocks will result in enhanced coal mining activities.
- ▶ Incentives introduced for gems and jewellery industry; these include reduced (3 per cent) customs duty rates for cut and polished diamonds.
- ▶ Service tax on outsourced services for mining of minerals, oil or gas will increase the cost of mining activities.
- ▶ Export duty of Rs 300 per tonne of iron ore and Rs 2,000 per tonne of chrome ores to adversely impact exports.

CORPORATE IMPACT

- ▶ **Tata Steel:** Exemption of customs duty on all coking-coal imports is a positive for a large player like Tata Steel. Introduction of export duty on iron ore also augurs well for it as more ore is likely to become available to domestic players.
- ▶ **Hindalco:** The Budget is neutral on the aluminium sector. For Hindalco, it appears as if the impact in the short-term to medium-term will not be anything significant.
- ▶ **SAIL:** Focus on the development of infrastructure is a positive. Given that the steel sector is on a roll now, this could be a welcome development.
- ▶ **Sterlite:** If the infrastructure story continues, the metals story, too, will look good. Overall, the Budget is quite neutral for the non-ferrous metals sector.



B. MUTHURAMAN
MANAGING DIRECTOR/ TATA STEEL

"The Budget is more focussed on bringing the under-performing sectors to perform, without jeopardising the growth trajectory of the overall economy. The Budget, as such, is neutral towards the steel sector"

I TELECOM



2007 WATCH

India Calling

THE INDIAN TELECOM INDUSTRY WITNESSED MOBILE subscriber growth of 54 per cent in the first 9 months of the current financial year, taking the subscriber base to 142 million. The country's teledensity touched 18 per cent in December 2006, up from 13 per cent a year ago and total industry revenues are likely to cross Rs 60,000 crore by the end of 2006-07, compared to Rs 38,000 crore in the last financial year. Increasing per-capita GDP, improving demographics, falling tariffs, lower handset prices, aggressive expansion by operators, infrastructure sharing and lower regulatory levies have been key growth drivers. But Average Revenues Per User (ARPU) are likely to remain under pressure due to the growth in the subscriber base in B and C circles and falling tariffs. WiMax and 3G are expected to grow significantly over the next two years. Multiple levies and taxes, interconnection delays (resulting in congestion and poor services) and spectrum constraints are some of the key challenges facing the sector.

SECTORAL IMPACT

- ▶ Withdrawal of the tax holiday for telecom services upon amalgamation or demerger after March 31, 2007.
- ▶ The Finance Minister has proposed to set up a committee to simplify the tax structure for the telecom sector; the idea is to move away from the current regime of multiple taxes to a single levy. This will reduce end-user charges and boost demand.
- ▶ Definition of telecom services for levy of service tax has been widened to cover all services provided by a telecom operator.
- ▶ Development and supply of content, including mobile value-added services, ringtones, games, wallpapers, etc., have been brought within the service tax net.



SANJEEV AGA
MANAGING DIRECTOR/ IDEA CELLULAR

"We are encouraged by the formation of a committee that will work on the introduction of a single levy for telecom services. Today, there are as many as eight to nine levies, accounting for over a third of the customer's bill. This high level of taxation has retarded the expansion of services to unserved areas"

CORPORATE IMPACT

- ▶ **Bharti Airtel:** The constitution of a committee to study a single levy for the industry is a positive for the company, which is the largest mobile phone player in the country.
- ▶ **Reliance Communications:** The company's focus has been on getting into areas where telecom services have low levels of penetration. The elimination of excise duty on bio-fuels will allow it to provide telecom services in areas where electricity services are not dependable.
- ▶ **MTNL:** The Budget will have little impact on it.
- ▶ **Idea Cellular:** The elimination of excise duty on bio-fuels augurs well for it. At a time when the company is looking to expand its presence to more circles, this is a welcome development.



SAPTARISHI BISWAS

I TEXTILES



2007 WATCH

Back in Action

THE INDIAN TEXTILES SECTOR SAW RAPID CAPACITY expansion in spite of a pressure on margins due to the abolition of quotas. During the first half of 2006-07, more than Rs 3,000 crore was sanctioned under Technology Upgradation Funds Scheme (TUFs). This scheme, which was due to be phased out by the end of this financial year, has now been extended to the 11th Plan period. During the first 9 months of the current financial year, textile exports grew 23.9 per cent to \$10.8 billion (Rs 47,520 crore). The exports of ready-made garment outpaced other segments, growing 34 per cent to \$5.9 billion (Rs 25,960 crore). The sector seems to be on track for rapid capacity expansion. There has been a spurt in fund raising through equity as well as debt. The industry is also expected to get into consolidation mode; the resulting economies of scale will enable it to take on increased global competition. The reduction in excise duty on man-made fibres and yarns and the reduction in customs duty on import of textile machinery will provide the ballast to sustain growth.

SECTORAL IMPACT

- ▶ Enhanced outlay on flagship initiatives. Integrated Textile Parks to get Rs 425 crore and the Technology Upgradation Fund Scheme to be continued during 11th plan with an outlay of Rs 911 crore.
- ▶ Cluster approach for development of handloom sector, introduced in financial year 2005-06, to be expanded. Social benefits by way of health insurance scheme will be extended to cover additional weavers and ancillary workers.
- ▶ Sector to benefit from reduction in customs duties on certain textile garments like polyester staple fibre, etc. However, removal of excise duty exemption for specified textile machinery could potentially increase capital costs.

CORPORATE IMPACT

- ▶ **Raymond:** It will gain from the extension of the TUF Scheme and the other incentives given to the textile industry as a whole. The extension of service tax to cover rentals of commercial properties will increase the operating costs of its retail venture, though.
- ▶ **Indian Rayon:** The extension of the TUF Scheme will help the company's expansion plans and allow it to enhance its competitive edge.
- ▶ **Alok Industries:** Extension of the TUF Scheme will allow it to increase capacities and improve cash flows.
- ▶ **Bombay Dyeing:** Continuation of TUF Scheme will help this one-time blue-chip carry out its ongoing modernisation and retail expansion plans with greater ease.



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THE BUDGET AND THE TRADE-OFFS



"Both in public education and health, without necessary reforms, more resources may end up as throwing more good money after bad and equity will not be improved. Education sector reforms are now critically required"

THE STRONG GDP GROWTH, SHARP increase in domestic savings and investment rates on the one hand and rising inflation and pressures from within his own party and Left allies to focus on equity on the other, have forced the Finance Minister to address two equally difficult but necessary trade-offs in this Budget. The first trade-off is between growth and equity and the second between rapid growth and macroeconomics, including price stability. The Budget is replete with measures to address the trade-off between growth and equity. The Finance Minister has taken advantage of the unexpected buoyancy in tax revenues to substantially increase outlays on rural infrastructure by 32 per cent, on education by 34 per cent and on health by 22 per cent. These are indeed impressive numbers. The eminently successful mid-day meal scheme has been further expanded and the allocation to secondary education doubled. There is a proposal to use public-private partnership for revamping and upgrading the 1,396 ITIs by providing them interest-free loans. The scheme for merit-cum-scholarships to hundred thousand secondary school students is a welcome step, but more like a drop in the ocean. The equity aspect is also evident in the approach towards industry. SMEs have been afforded several concessions

and incentives that have not been extended to India Inc. The corporate tax rate surcharge has been removed for SMEs; exemption limit for central excise has been raised from Rs 1 crore to Rs 1.5 crore; small service providers have been exempted from service tax and the allocation for the handloom sector has been enhanced. However, there is a notable pause in doing away with the dysfunctional SSI reservation scheme.

The Finance Minister seems to have taken the view that with burgeoning corporate profits and double-digit growth in manufacturing and services, India Inc. does not need any further incentives. Instead, he has used the Budget to push the politically popular equity enhancing schemes. In this context, one wonders if it was pragmatic to bring stock options under the FBT net when the corporate sector did not really get any of their demands? But the real danger is that increasing budgetary allocations are taken as both the necessary and sufficient conditions for improving equity. This is borne out also by the poor offtake under the NREG scheme where the allocations have been left underutilised. Finance Minister's indication that there will be better monitoring of food subsidy is a step in the right direction. So, it would be clear to him that without necessary reforms

and ensuring effective delivery, larger resources allocated in successive Budgets and plans simply do not reach the targeted beneficiaries. Governance reforms are the key to improving delivery of public goods and services. I am convinced that both in public education and health, without necessary reforms, more resources may end up as throwing more good money after bad and equity will not be improved. Education sector reforms are now critically required if the emerging skill shortages are to be addressed and the demographic dividend be earned.

The trade-off between growth and macroeconomic stability and inflation is even more difficult one to address without being prepared to push the reform agenda further with the objective of removing structural impediments that prevent an adequate supply response to meet rising demand. In fact, in its search for quick fixes, the Budget may have faltered in taking some steps which will neither have the desired price stabilisation effect nor improve economic efficiency. The ban on forward trading (that the Finance Minister referred to in his speech) is like breaking a thermometer as it gives the temperature reading rather than cure the inherent illness. The differential excise duty on cement, based on minimum retail price is a backdoor

attempt to bring back price controls that are surely counter productive. The cut in peak import duties for non-agriculture products from 12.5 to 10 per cent is not bold enough to have any major downward impact on prices. Fertiliser subsidies have shot up by nearly 50 per cent and credit to farmers more than doubled. And yet supply shortages and agriculture distress continue. This should point towards the need for a major overhaul of agriculture policy regime and give up tinkering at the margins. And the agriculture sector policy regime remains highly controlled and not allowed to benefit from a free market and greater integration with international markets. This prevents our farmers from benefitting from global trends and for supply response to be faster in facing of emerging shortages. This is a necessary condition, in my view, to prevent transitory shortages of primary commodities and stoking inflationary pressures.

As the successful Chinese experience of the last decade-and-a-half demonstrates, addressing the trade-off between growth and inflation requires reforms that will significantly improve the investment climate thereby evoking the necessary supply response, integrate the large domestic market by removing barriers to movement of goods and services and letting firms exploit economies of scale and generate more competition both by relaxing domestic entry conditions and making imports cheaper and easier. This Budget could have been used to undertake these much-needed reforms to improve the investment climate. Moreover, even for removing infrastructure bottlenecks, reforms are needed to attract private investment and reduce project-related risks. For example, the Budget could have provided some incentives for the laggard states to implement the open access system



A. PRABHAKAR RAO

"This is a business-as-usual Budget. It does not have any negative signals for investors, but at the same time does not set the Yamuna on fire either. At best, it represents a craftsman's Budget"

for inter-state power transmission that has emerged as the main problem in attracting more private sector investment in the power sector where capacity expansion is far short of targets and dampens investment intentions. It is here that this Budget disappoints. It treads the well-beaten track and does so rather well by adhering to FRBM targets, taking the GST process forward, keeping direct tax rates largely unchanged and improving tax compliance and reducing the ad valorem tax rate on petroleum products. But, there is hardly a policy initiative that would demonstrate the government's commitment to reforms that are needed to give fresh impetus to growth to take it up another notch and yet keep inflation at bay.

Overall, this is a business-as-

usual Budget. It does not have any negative signals for investors, but at the same time does not set the Yamuna on fire either. The Finance Minister could well claim that in the given circumstances, this is good enough. At best, it represents a craftsman's Budget that could have done well had it been infused with some vision for the future. As the Economic Survey states, the economy is transitioning to a higher growth path with greater integration with the global economy. To successfully achieve this transition, we today need a strategic blueprint for the economy that could have been provided in the Budget, which cannot be treated simply as an accounting exercise for the government. ■

Rajiv Kumar is Director & Chief Executive, ICRIER

ERNST & YOUNG COLUMN | RAJIV MEMANI
OUTLAYS VS OUTCOMES

"In my mind, the thrust areas for this Budget are around the agricultural and social sectors to ensure inclusive and sustainable growth and to address India's infrastructure bottlenecks"

IN THE HISTORY OF INDEPENDENT India, this year has probably presented the strongest backdrop for the Budget from an economic and fiscal performance perspective. India's GDP has grown at over 9 per cent this financial year and at over 8 per cent over the last three years. Industrial production is up 11.3 per cent and we have a combination of a high savings and investment rate, both of which have been over 30 per cent of GDP in the last year. India's foreign exchange reserves, at \$180 billion (Rs 7,92,000 crore), are one of the highest amongst emerging economies. Tax collections have risen 28 per cent over the previous year and the fiscal deficit, at 3.7 per cent of GDP, is well within the FRBM targets. Inflation is the only area of concern and is possibly an outcome of the growth that the Indian economy has experienced.

In this context, the Finance Minister was batting on a very strong wicket from a macroeconomic perspective and could have initiated some bold reform measures that would go a long way in ensuring sustainable long-term growth for the Indian economy. I believe that the Budget has taken some steps in these areas but more could have been done in terms of setting bolder targets and addressing the pressing issue of outlay versus outcome in various Budget

initiatives. In my mind, the thrust areas for this Budget are around the agricultural and social sectors to ensure inclusive and sustainable growth and to address India's infrastructure bottlenecks.

With agriculture growth at less than 3 per cent over the last few years and the avowed inclusive-agenda of the government, the announcements for the farm sector are welcome. Agriculture-based supply side constraints have also been key contributors to the increase in inflation. This Budget provides for an increase in outlays for programmes on increased farm credit, irrigation, watershed management, seeds supply and agri research, and higher allocations for safety net schemes, including flagship programmes such as Bharat Nirman, the National Rural Employment Guarantee Scheme, etc., are positives. However, the outlay versus actual implementation (and addressing key issues such as corruption and leakages) is paramount. In my opinion, creating linkages for the agricultural sector through a more open policy on retail will result in a much greater "pull-up" effect for the rural sector in the years ahead.

The FM must be complimented for stepping up the funding for education by 34.2 per cent and for health and family welfare by 21.6 per cent. I have long main-

tained that India needs both physical and soft infrastructure (read: skilled talent) to sustain our growth momentum and leverage our demographic dividend. Spiralling wage rates in most sectors in recent times are a result of demand-supply mismatch in skilled labour.

The plan to address the problem of dropouts after the eighth standard—by offering scholarships, etc.—is laudable, but the education sector now needs transformational changes. Multiple studies have shown that learning outcomes at most government schools compare poorly with those of their private counterparts, leading to high dropout rates in early years. Vocational education needs a big push as also higher education. In this context, a clear framework to better target public investment in education and to provide incentives for increased private participation is warranted.

I don't think Indians have felt the pinch of inadequate infrastructure more strongly than has happened in the last 6-12 months, possibly as a result of unprecedented economic growth across sectors. The privatisation of the airports in Delhi and Mumbai has sent out a very positive signal about the commitment of the government to set things right. The setting up of a \$5-billion (Rs 22,000 crore) fund to finance Indian infrastruc-

ture and the attempt to attract global financial capital and investments in capacity building at the central level are encouraging steps.

In order to realise incremental power capacity additions of 66.4 GW and 86.5 GW planned for the 11th and 12th Five Year Plans, policy initiatives in the power sector need to be more favourable for companies at the generation, transmission and distribution levels. The Ultra Mega Power Projects (UMPP) were meant to leapfrog generation capacity. However, against the planned five UMPP projects to be awarded last year, only two could be awarded. This year, the government has committed to an additional seven UMPP projects. The key question is: how many of these projects will see the light of day?

There have been a few laudable initiatives, like the proposal to permit the issue of tax-free bonds through state-pooled entities and for mutual funds to issue dedicated infrastructure funds. This is likely to assist funding for local development and urban civic bodies. The initiative to utilise forex reserves for infrastructure development through the IIFC is a positive move. These are only incremental steps to improving infrastructure but the government could have done more in enunciating bold targets to remove key infrastructure bottlenecks over the next 3-5 years.

There are parts of the Budget that I believe are negative and bring back to my mind the prevailing policy environment in India 15-20 years ago—the tax on the cement industry being a case in point. The reduction in excise duty rate to rein in retail prices and reward those who hold the price line and the decision to penalise those who don't is an indirect measure of price control and counter-intuitive. Cement consumption is not price elastic and I believe that the larger

players will mark up prices to account for higher excise anyway, defeating the underlying purpose of controlling inflation.

Despite high growth in the industrial sector, India's mining sector has been plagued by low growth and excessive controls. The much-awaited fiscal recommendation of removing the cap on the deductibility of exploration expenditure in the mining sector did not find place in the Budget. This anomaly needs to be corrected, given the input availability and cost-effect linkages of mining to other core sectors of the economy.

On the taxation front, more needed to be done to address the needs of a growing urban population. To my mind, this was an op-

taxed countries in the world. I believe this Budget could have balanced the tax equation by increasing the rates on short-term capital gains and STT while reducing the rates on corporate tax.

In conclusion, I believe this is a Budget that reflects the government's mood to encourage inclusive growth and do more in the social sectors which is spot on. Corporate India has been doing well and is fully supportive of this agenda.

The pressing agenda is to push through harder second-generation reforms in the areas of pensions, labour laws and foreign investment policies in key sectors such as retail, insurance, infrastructure, etc. The early signs of economic benefits that could accrue from these initia-

"There are parts of the Budget that I believe are negative and bring back to my mind the prevailing policy environment in India 15-20 years ago—the tax on the cement industry being a case in point"

portunity for the Finance Minister to increase the I-T exemption slab to Rs 2 lakh from the current level. The minor increase in slabs, resulting in a tax saving of approx. Rs 1,000, does nothing to address the needs of people in the lower tax bracket grappling with the current cost of living in our urban centres.

The Finance Minister has mentioned that we will transition towards a Goods and Services Tax (GST) environment by 2010, which is a very positive step. There is an urgent need to address the multiplicity of taxes in our country that results in a large amount of litigations and an inefficient tax administration environment. As per various studies conducted by UNDP, India still remains one of the highest

tives, including substantial improvements in the supply chain infrastructure for agricultural products are very positive.

Delays in second-generation reforms is akin to swimming against the tide and could result in India not adequately capitalising on its demographic dividend. I believe that greater growth is a strong driver to generate additional resources that can be ploughed back into education, agriculture and health-care. I hope that the Finance Minister has only tactically stayed away from taking on a bolder stance to address these issues to avoid the excessive media and political glare around the Budget event. ■

Rajiv Memani is Chairman and CEO of Ernst & Young India

ERNST & YOUNG COLUMN | AMITABH SINGH SEEKING PARITY AND HOW



"The Budget is essentially growth-centred with a long-term objective. The Finance Minister did not have to hand out tax sops, although he did throw in little tidbits to keep the individual taxpayers from feeling ignored"

FOR THE SECOND YEAR IN A ROW, the Finance Minister has maintained a general status quo in his Budget proposals for individuals. As the individual waited with much anticipation, given widespread rumours of tax rates coming down, the minister delivered his short and crisp direct tax proposals in a manner similar to attending a social 'must attend' function—in and out for just enough time for people to see him but not really feel his presence.

The primary focus of the Finance Minister was on agriculture, development of the rural sector and education. The Finance Minister summed up his agenda thus: "Agriculture must be the top agenda of the policy makers and must hold first charge..."

The Budget is essentially growth-centred with a long-term objective. The intention is to fight inflation with increased thrust on manufacturing and productivity. Of course, the fact that this was not an election year meant that the Finance Minister did not have to hand out tax sops, although he did throw in little tidbits to keep the individual taxpayers from feeling ignored.

But on a more serious note, I did see an absolute conviction in the Finance Minister's efforts at taxing high income earning individuals and giving concessions to

low income groups, proposing higher taxes on employee stock benefits and widening the capital gains base at one end and increasing the maximum exemption threshold limit at the other. Also, fringe benefit tax continues to be the key tool, clearly shifting taxability away from the employees to the employer.

The proposals put forth by the Finance Minister are discussed in the ensuing paragraphs.

The Finance Minister has provided a tax concession of Rs 1,000 for all individual taxpayers by uni-

formly increasing the maximum exemption threshold limit by Rs 10,000 across all types of individual taxpayers. Clearly, each individual will immediately see the pocket getting heavier. But with the corresponding levy of the secondary and higher education cess of 1 per cent, the higher income bracket individuals will be no better off. So, every individual who has a taxable income of over Rs 5,10,000 (for males) will suffer on an overall basis.

Hitherto, the benefit derived by the employees on stock op-

KEY MEASURES

- Introduction of secondary and higher education cess of 1%
- Increase in the maximum exemption threshold limit by Rs 10,000
- Stock options brought within the purview of Fringe Benefit Tax
- Expansion of the capital gains base; tax exemption limited in specified cases
- Deduction on health insurance premium increased by an additional Rs 5,000
- Deduction allowed for education loans taken by an individual even for spouse and children of the individual



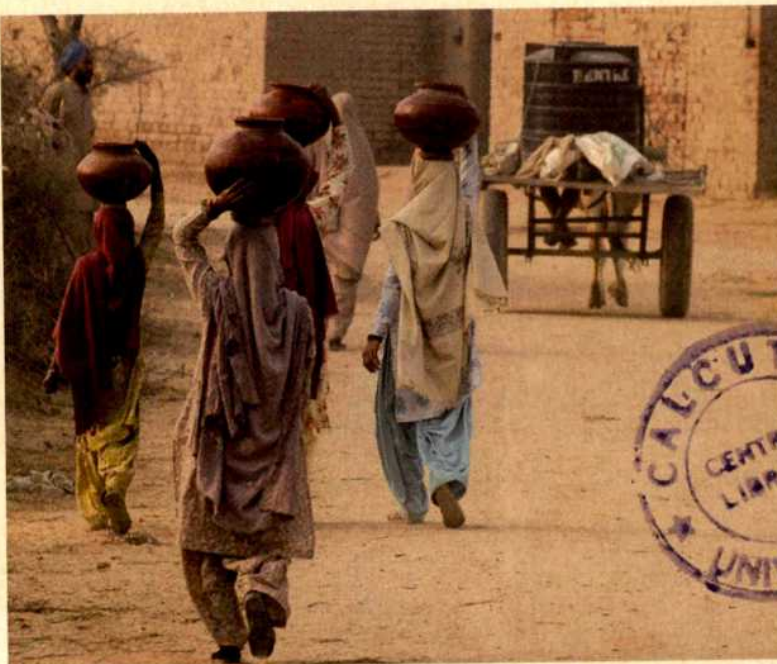
VIVAN MEHRA

tion income was taxed only at the time of selling the shares by the employees and there was no tax payable either by the employer or employee on exercise of the shares/securities, where the stock plan was compliant with the guidelines issued by the government.

The Finance Minister now proposes to bring the benefit arising at the time of exercise of shares/security by the employees within the ambit of the fringe benefit tax. Consequently, the employer will now be required to pay tax at 33.99 per cent on the difference between the fair market value of the shares/security at the time of exercise and the amount paid by the employee. This will significantly increase the overall cost of the employer (as also that fringe benefit tax is not allowed as a deductible expenditure for companies). It should be noted here that the employee will still be liable to capital gains at the time of sale of such shares/security, the cost of acquisition being the fair market value of the shares/security at the time of exercise.

The Finance Minister has also proposed two key changes in capital gains provisions. One is to include personal effects like archaeological collections, drawings, paintings, sculpture, or any work of art, within the purview of capital gains tax. From this, it is clear that the Finance Minister has not missed that high net-worth individuals have recently started increasing their investments in potentially tax-free art objects and paintings.

The other change relates to availability of capital gains exemption on investments made in long-term specified bonds. As per the current provisions, a taxpayer can claim an exemption from capital gains arising from the transfer of a long-term capital asset to the extent such gains are invested in "long-



"There is equity in the Finance Minister's proposals and his efforts to tax the rich and spare the poor. If used for the right purposes, the additional education cess will help us in gearing a larger educated workforce"

term specified bonds" within a period of six months from the date of such transfer. The Budget proposes to cap this investment amount at Rs 50 lakh in a year.

Again, from the proposals relating to capital gains, it is evident that the Finance Minister wants to come down hard on high income earning individuals.

Amongst the other proposals, the Finance Minister has sought to increase the deduction under Section 80D towards health insurance premium by an additional Rs 5,000. Further, the Finance Minister also proposes to permit deduction under Section 80E for education loans taken by an individual even for spouse and children of the individual.

On an overall basis, not an exciting Budget proposal. Does this indicate things to come in the future? We can just wait and watch. Hopefully, the Monsoon Session will not have any hidden surprises.

Having said that and in true Indian spirit, there is equity in the Finance Minister's proposals and his efforts to tax the rich and spare the poor. If used for the right purposes, the additional education cess will help us in gearing a larger educated workforce in future and measures like taxing stock income gains under fringe benefit tax and expansion of the capital gains base will achieve more parity in net wealth of individuals. ■

Amitabh Singh is Tax Partner,
Ernst & Young

ERNST & YOUNG COLUMN | VIVEK MISHRA

A "HOLD THE COURSE" BUDGET



"The reduction of Central sales tax from 4 per cent to 3 per cent is welcome, but hardly the stuff 'dream budgets' are made of. The Budget does not have any new initiatives but continues the course already charted out"

CONTRARY TO INDUSTRY EXPECTATIONS, indirect taxes have not seen any significant changes in Budget 2007.

Unlike the previous year's Budget, there has been minor tinkering with service tax. In the interest of the small service providers, the threshold limit has been doubled from Rs 4 lakh to Rs 8 lakh. The ambit of taxable services has been widened with the introduction of seven new services, including renting of immovable property, development and supply of content for use in telecoms and advertising, mining related services, design services like furniture design, aesthetic design, consumer or industrial products, logos etc. The imposition of service tax on property rental is expected to increase the service tax burden of businesses.

Service tax is also proposed to be levied on services involved in execution of works contract such as construction, erection, installation and commissioning services etc., but specifically excludes maintenance and repair from its ambit. The Finance Minister also mentioned providing an option to works contractors to pay service tax under a composition scheme at 2 per cent of the total value of the works contract instead of 12.36 per cent on the service component. Introduction of this service

category is, however, likely to overlap with the existing service categories for construction, installation etc and create disputes. Ambiguity with regard to export of service has been considerably cleared by replacing the condition of 'delivered outside India and used outside India' with 'provided from India and used outside India'.

In continuation of the policy of aligning the customs duty rates to the ASEAN level, the peak rate customs duty has been reduced from 12.5 per cent to 10 per cent. The *ad valorem* component on textile fabrics and garments has been reduced from 12.5 per cent to 10 per cent. Crude and refined edible oils have been exempted from the 4 per cent additional duty of customs. Customs duty on food processing machinery has been reduced to 5 per cent from 7.5 per cent and that on medical equipment from 12.5 per cent to 7.5 per cent. In an apparent attempt to discourage the export of scarce iron ore, export duty at the rate of Rs 300 PMT on iron ore and concentrates has also been imposed.

While no changes have been made to the Cenvat rates, the threshold limit for exemption has been increased from Rs 1 crore to Rs 1.5 crore to encourage the small-scale industries (SSIs). Excise duty exemption has been extended to food

mixes, specified water purification devices and household water filters. There has also been a reduction of the *ad valorem* component of the excise duty on petrol and diesel from 8 per cent to 6 per cent while bio-diesel has been exempted from duty. The FM has proposed to reduce the present rate of excise duty of Rs 400 PMT to Rs 350 PMT on cement sold in retail at not more than Rs 190 per bag. Cement sold at a higher MRP will attract excise duty of Rs 600 PMT.

To boost the man-made fibre and yarn industry, the customs duty on polyester fibres and yarns and inputs used therein, have been reduced from 10 per cent to 7.5 per cent. However, exemption from excise duty to specified textile machinery has been withdrawn with levy of an excise duty of 8 per cent.

The UPA Government's fourth Budget does not hold any surprises. The reduction of Central sales tax from 4 per cent to 3 per cent is welcome, but hardly the stuff "dream budgets" are made of. The Budget does not have any new initiatives but continues the course already charted out, without any signs of accelerating down the road to tax reform and simplification.

Vivek Mishra is Partner (Indirect Tax), Global Tax Advisory Services, Ernst & Young



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ERNST & YOUNG COLUMN | GAURAV TANEJA
A CONSERVATIVE BUDGET

"The Budget has its share of positives—allocations towards agriculture, efforts to boost the rural economy, etc. A lot more could have been achieved if the Budget had incentivised industry to participate in the rural economy"

OVER THE LAST FEW YEARS, THE Finance Minister's performance in managing fiscal deficit has been exemplary and in the bright fiscal horizon the only small dark cloud is the rising inflation rate. Chidambaram presented the Union Budget 2007 against a backdrop of a booming economy with estimated GDP growth rate of 9.2 per cent in 2006-07 and foreign exchange reserves of approximately \$180 billion. India's macroeconomic performance over the last few years had provided an opportune platform to the Finance Minister to introduce rationalisation and simplification in the tax structure and to support India Inc. in its growth. The industry expected simplification of the tax structure, reduction in tax rates and extension of tax incentives to support the growth of India as an economic super-power. However, unfortunately, the Finance Minister did not make the most of the available opportunity.

The Budget gives mixed signals with regard to the government's policy on infrastructure, technology and knowledge-based industries. The Finance Minister has extended the benefit of weighted deduction available for in-house scientific research for a further period of 5 years. He has also widened the scope of tax incentive available under Section 80IA

(for infrastructure projects) to gas distribution networks and navigation channels in the sea. A new section has been introduced for providing tax holiday for five years for hotels to be set up for the Commonwealth Games.

However, instead of extending the tax incentives to the IT and IT enabled businesses the Finance Minister has actually hit them by extending the applicability of Minimum Alternate Tax (MAT) to software and other export-oriented units. The software and export-oriented units are the catalysts of growth in the economy and have the potential to make India one of the largest economies of the world. While MAT may be creditable over a period of time, the short-term cash flow impact of taxes would curb the growth efforts of smaller and medium-sized companies in this space.

The Finance Minister has introduced some reduction in tax rates for individuals and SMEs. However, with the extension of Fringe Benefit Tax (FBT) to cover stock options and increase in education cess by 1 per cent, the overall impact of such reduction is lost. The Finance Minister has introduced a two-stage taxation on stock option gains—first, a tax on employer by way of FBT and then a tax on the individual employee upon exercise of the options/sale of

the shares. The proposed levy of FBT on the employer would discourage the employers from providing stock option benefit to the employees in view of the FBT levy.

Increasing dividend distribution tax (DDT) rate is another easy revenue increasing mechanism which the Finance Minister has resorted to. DDT started off at 10 per cent a few years back and has gradually crept up to 15 per cent. With surcharges and education cess, this rate actually works out to close to 17 per cent. With the increase in the DDT rate to approximately 17 per cent, the effective tax rate for an Indian branch of a foreign company (42.23 per cent) would work out lower than the effective tax rate for an Indian subsidiary of a foreign company (43.57 per cent), which may influence the inbound investment structures.

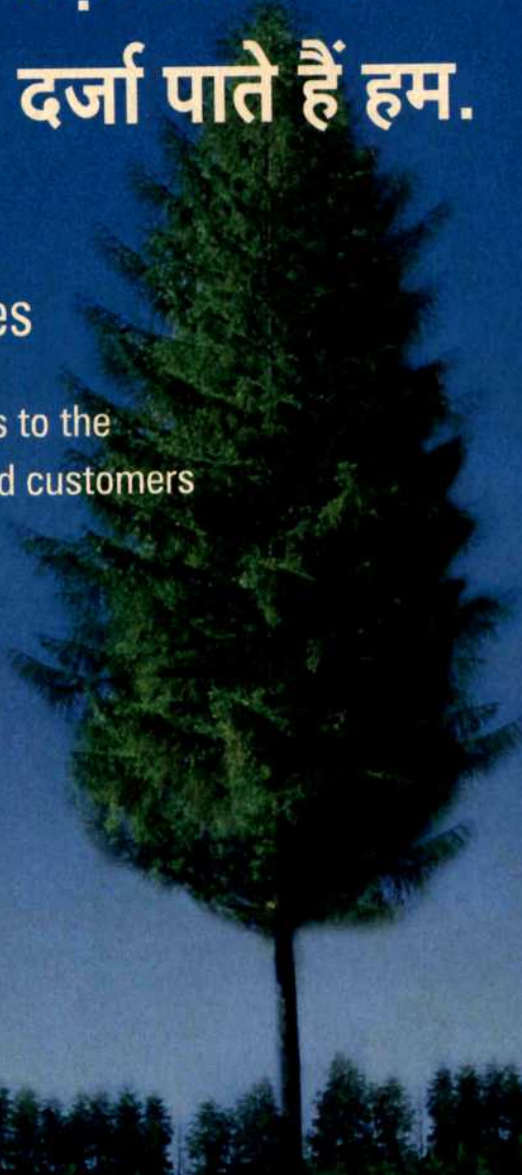
On the development front, the Budget has its share of positives—significant allocations towards agriculture, concrete efforts to boost the rural economy, allocation towards Rural Health Mission, etc. However, a lot more could have been achieved if the Budget had incentivised industry to participate in the rural economy and to improve the efficiency of the agricultural supply chain.

Gaurav Taneja is Partner (Human Capital), Global Tax Advisory Services, Ernst & Young

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THE BEST INVESTMENT OPTIONS

This Budget hasn't really opened up too many new avenues for you. If anything, the higher dividend distribution tax may make life more difficult. Here are some instruments you can consider. AMIT MUKHERJEE

SMALL CHANGE. THAT'S WHAT BUDGET 2007 HANDS OUT TO RETAIL investors. Loath to slow down the gravy train, Finance Minister P. Chidambaram increased the personal income tax exemption limit by a token Rs 10,000 for men, women and senior citizens. As a result, male taxpayers can claim an exemption of Rs 1,10,000, women of Rs 1,45,000 and senior citizens, Rs 1,95,000. "The relief this tax break brings will be insignificant," complains Delhi-based financial consultant Mukesh Gupta of Wealthcare Securities.

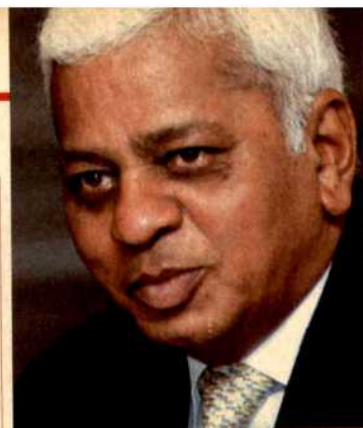
Some other proposals in the Budget may leave investors with a hole in their pockets. Take the hike in dividend distribution tax. Here on, the dividends paid by money market mutual funds and liquid mutual funds will attract a tax rate of 25 per cent compared to 12 per cent till now. That means, the asset management companies will deduct a whopping 28 per cent by way of tax before they send you the dividend cheque. Explains Gaurav Mashruwala, Director, ACE: "While the tax has been raised to 25 per cent, when you consider the surcharge and the cess, the effective deduction works out to about 28 per cent." The dividend distribution tax for non-asset management com-

THE BUDGET & YOU

- Dividend distribution tax hiked from 12.5 to 15 per cent
- Income tax exemption increased by Rs 10,000 for men, women, and senior citizens
- Mutual funds allowed to set up dedicated infrastructure funds
- Indian investors allowed to invest in overseas capital markets via mutual funds
- Insurance companies to launch a senior citizens scheme in 2007-08
- PAN will be sole ID number for all market participants

B. MUTHURAMAN/
MD/ Tata Steel

"The increase in dividend distribution tax and education cess is certainly a negative from the investor's point of view, but hurts corporates as well"



panies—that is, regular companies—has been increased from 12.5 to 15 per cent. But since it is the company that will be required to pay the tax, the shareholder won't be affected.

An additional cess, named "Secondary and Higher Education Cess on Income Tax", of 1 per cent is to be introduced. Effectively the cess component of the tax payable has gone up from 2 per cent to 3 per cent. Also, those who have an income above Rs. 5.5 lakh will end up paying marginally higher taxes.

Interest income in excess of Rs 10,000 from the Reserve Bank of India bonds will also be subject to tax. Until now, there was no upper limit to investments in tax-free bonds, as long as the money was from capital gains. But in the 2007-08 Budget, the Finance Minister has imposed a Rs 50-lakh limit. "The steps taken with respect to dividend distribution tax on mutual funds and TDS on bonds and other instruments are actually discouraging people from investing in anything other than fixed deposits," says Mashruwala. Adds Sandesh Kirkire, CEO, Kotak Asset Management: "The policies announced indicate a very complicated tax mechanism, which really confuses individuals and investors. Some of the moves will encourage litigation and, to a certain extent, hurt the corporates."

Last year, the Finance Minister had imposed a

cash withdrawal tax in order to curb black money and the parallel economy. While he has retained the tax despite protests, he has increased the exemption limit for individuals and Hindu undivided families (HUFs) from Rs 25,000 to Rs 50,000. "It's good for the individual investor," says Gupta.



CEMENT

The FM has proposed to reduce the excise duty on cement by Rs 50 to Rs 350 per metric tonne for those manufacturers who sell a 50-kg bag for Rs 190



REAL ESTATE

Senior citizens may stand to benefit from a novel scheme of reverse mortgage, but realtors stand to bear the brunt of increased construction costs

Where to put the Money

Well, that was as far as tax proposals were concerned. But if you are looking to invest your hard-earned money, then which direction is Budget 2007 pushing you? Don't go by the stock market's reaction of February 28. It was an unusual day because stock markets globally swooned too. Yes, the Sensex

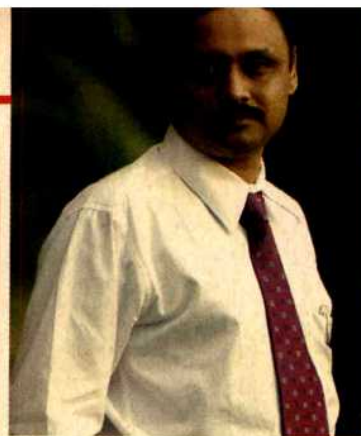


SIDDHARTHA ROY/
Chief Economist/ Tata Sons

"The Finance Minister's focus on inclusive growth, particularly the thrust on the rural sector, will be good for the farm equipment business tractors"

SANDESH KIRKIRE/
CEO/ Kotak Asset Management

"The policies announced again indicate a very complicated tax mechanism, which really confuses individuals and investors"



plunged 541 points to close the day at 12,938—its biggest drop since May 18, 2006—but equities ought to remain your preferred investment vehicle, simply because over the long run, they fetch the best returns.

Yet, when you have large institutions such as Morgan Stanley urging investors to stay away from emerging markets such as India because they think the risk is higher than the expected returns, then you have to wonder if it's advisable to cut the exposure to stock markets. "For those investors who have been investing in emerging markets, it's a good idea to take money off the table," says an executive at a leading investment company.

However, if you believe in the long-term India story, then you should stay invested. "Certainly, the Budget will lift the spirits of sectors such as education, infrastructure, textile, hospitality and power equipment," says Ravi Sardana, Senior VP, ICICI Securities. The government, he points out, has laid adequate emphasis on completion of the highway projects, modernisation of the textile industry (via an increase in the Technology Upgradation Fund), and creation of opportunities for the power infrastructure firms. All these measures, Sardana says, could translate into strong performances on the stock market. Also, emphasis on farm and agriculture may see better performances by agri-based, food processing and

agri-tool sectors.

What about the IT industry, which has been brought under the Minimum Alternative Tax net? MAT won't affect frontline IT companies substantially, simply because they are hugely profitable, and it may be politically correct for them to start contributing to the national ex-



PHARMA

Lower customs duties on imported equipment will cut R&D costs and improve profitability; this may lead to higher prices of drug stocks



TEXTILES

Customs duty on raw materials such as DMT, PTA and MEG has been reduced from 10 per cent to 7.5 per cent. In other words, yarns just got cheaper

chequer. However, the smaller IT companies could take a hit. According to estimates, the impact on their net margins could vary from 1.5 to 2.5 per cent. Most analysts believe that the stock market will soon forget the MAT effect on IT stocks, since the industry growth is strong. What



MUKESH GUPTA/
Wealthcare Securities

"Now, antiques, drawings, paintings, sculptures, and all other works of art have been brought under the definition of the term capital asset"

GAURAV MASHRUWALA
Director/ ACE

"The steps taken with respect to dividend distribution tax on MFs and TDS on bonds are discouraging people from investing in anything other than FDs"



employees of IT companies may not be able to forget in a hurry is the imposition of fringe benefit tax (FBT) on employee stock option schemes (ESOPs). "This could encourage companies to adopt an alternate mode of employee compensation," says C. Parthasarathy, Chairman, Karvy Group.

While some in the IT industry had been in favour of MAT, the cement industry probably hadn't bargained for the yorcker that the Finance Minister hurled at them. We are, of course, referring to his decision to check the increase in cement prices by alternately incentivising and penalising cement manufacturers. He has proposed to reduce the excise duty on cement by Rs 50 to Rs 350 per tonne for those manufacturers who sell a 50-kg bag for Rs 190. Those who sell above that figure, will have to pay Rs 600 per tonne as excise instead of Rs 400. "Such proposals cannot control cement prices," says Krishna Kumar Karwa, Managing Director, Emkay Share & Stock Brokers. "The basic economics of demand and supply will overrule everything else."

Bet on Infrastructure

But things might just look up for the mutual fund sector as steps have been initiated to promote the flow of investment to the infrastructure sector by permitting mutual funds to launch and operate dedicated infrastructure funds. Also, the move to converge the different regulations that allow individuals and Indian mutual funds to invest in overseas securities by permitting individuals to invest through Indian mutual funds may work in a positive way in the long run for investors.

More importantly, the move to allow short selling by institutions and allowing Indian companies to issue exchangeable bonds to unlock a part of their holdings in group companies will have a positive impact. A big surprise has been the impact on money market mutual

funds. The increase in dividend distribution tax will reduce the tax arbitrage and make fixed deposits more attractive. "There is a 180-degree difference between what was expected from the Budget for debt mutual funds and what it eventually offered," says Mashruwala. "To that extent, this category of investment will surely get affected and debt funds will come at par with bank fixed deposits," he adds.

As for the booming realty sector, the FM has left it largely untouched as far as the common investor is concerned. But senior citizens may stand to benefit from a novel



FOOD PROCESSING

The food processing industry will benefit from the incentives provided to it. Keen investors will do well to keep an eye on the performance of such stocks



MUTUAL FUNDS

The FM has upped dividend distribution tax from 12.5 per cent to 15 per cent, but in the case of money market MFs and liquid funds, increased it to 25 per cent

scheme of reverse mortgage that the National Housing Bank (NHB) will shortly introduce. "Under this, a senior citizen who is the owner of a house can avail of a monthly stream of income against the mortgage of his/her house, while remaining the owner and occupying the house throughout his/her lifetime, without repayment or servicing of the loan," Chidambaram said in his Budget speech. Needless to say, with this proposal, Chidambaram may have secured the votes of at least one section of India's population. ■



WHAT'S CHEAPER,

Once again, cigarettes get slammed, but medical equipment become

All non-agricultural items: Peak customs duty rate on non-agricultural items are down from 12.5 to 10 per cent. That means, all imported machinery and non-agricultural commodities just got cheaper—in theory. How much of the gains reach the consumer is a different issue.

Biscuits and food mixes: Biscuits and food mixes have been fully exempted from excise duty. In doing so, Finance Minister P. Chidambaram, he said, was trying to show that he is not biased towards *idli* and *dosa* mixes. Mixes majors such as MTR, recently acquired by Finnish company Orkla, must be licking their chops.

Steel: Duties on seconds and defective steel have been reduced from 20 to 10 per cent. That should correct an anomaly that some in the industry have been complaining about, which is that duty on prime steel is only 5 per cent. Impact on local prices will depend on the demand for steel.

Pet foods: Dog and cat lovers, rejoice. While you enjoy your cheaper *dosa* and *sambhar* fare, your pet can chew on imported chow, which will now attract just 20 per cent customs duty from 30 per cent before. And if you are feeding your dog home-cooked food, it's time you indulged him a bit.

Mouth freshener: Excise duty on pan masala without tobacco (mouth fresheners) has been slashed from 66 to 45 per cent. However, pan masala with tobacco will continue to attract 66 per cent excise duty. Worse for the pan masala manufacturers, exemptions given to units in North Eastern states stand withdrawn.

Watches and umbrellas: Perhaps the unseasonal rain the night before the Budget had nothing to do with it, but customs duty on umbrella parts has been cut from 12.5 to 5 per cent. Ditto, watch dials. Chinese manufacturers must be grinning from ear to ear.

Medical equipment: Customs duty has been dropped from 12.5 to 7.5 per cent. It's a small concession, but the healthcare industry must be grateful. Equipment are among some of the biggest investments that hospitals make.

Polyester yarn: A reduction in customs duty on polyester from 10 to 7.5 per cent means yarn just got cheaper. What's more, customs duty on raw materials such as DMT, PTA and MEG has also been reduced from 10 to 7.5 per cent.

Water purifiers: First the good news: "Water purification devices operating on specified membrane-based technologies" have been fully exempt from excise duty. The bad news: It will only impact purifiers that do not use electricity (Zero B, Thermax), and will not include your Aquaguard at home. Why? They use electricity and, ergo, haven't been exempted.

Bio-diesel: Budget 2007-08 fully exempts bio-diesel from excise. Who gains? Not too many people, since bio-diesel still sells in very limited quantities. Just the same, it's an incentive for manufacturers to start producing more bio-diesel.

Footwear: Just like umbrella parts, those used in the manufacture of footwear will now attract just 8 per cent excise duty, compared to 16 per cent earlier. That's great for buyers of Liberty, Bata and Action shoes, but not for those who buy imported shoes.

WHAT'S DEARER?

cheaper. AMAN MALIK & PALLAVI SRIVASTAVA

Cigarettes: A favourite whipping boy, the tobacco industry, and cigarettes in particular, have been slapped with an extra 5 per cent excise duty. The petty smokers haven't been spared either. Excise duty on *biris* (which was last fixed in 2001) will be raised from Rs 7 to Rs 11 per thousand for hand-rolled *biris* and from Rs 17 to Rs 24 per thousand for machine-made *biris*.

Cement: Probably in a move to curb the rising cement prices over the last one year, the FM has decided to levy excise duty of Rs 600 per metric tonne on cement bags (50 kg) costing more than Rs 190 per bag. The silver lining? The FM has promised to reduce the present rate of excise duty of Rs 400 per metric tonne to Rs 350 per metric tonne on cement sold at Rs 190 per bag.

Commercial property: Banks, beauty salons, clinics...just about any such service providers who use rented property to operate their business, will have to pay more in terms of rents, since such immovable properties will now attract service tax. And who will they pass on the cost to? Of course, you, the consumer.

Wealth management: Your personal wealth manager may start charging you more for his services, since the Finance Minister has brought him under the service tax net as well. So, just hope that the stock markets don't tank any more; otherwise, you may not have much wealth left to pay him out of.

Design services: Yet another service that will start paying tax starting 2007-08. Design services is a broad terminology that covers designing of furniture, consumer products, industrial products, packages, logos, graphics, websites, and three-dimensional models.

Mobile downloads: Apparently, "development and supply of content" includes everything from mobile value added services to music to movie clips to ring tones, besides things like wall paper, mobile games, news, and animation films. Will your mobile phone service provider pass on the cost to you? Most likely, yes.

Aircraft: Low-cost carriers may not remain so low cost any more. All private aircraft, including helicopters, imported into the country will attract a 3 per cent import duty. That apart, such imports will attract countervailing duty and additional customs duty. Perhaps the last thing the beleaguered industry needed.

Contract work: When the Finance Minister said that he was going to bring works contract under services tax, he was talking about a wide variety of installation work. Consider the list: erection, commissioning or installation of plant, machinery equipment or structures; plumbing, sound insulation, fire proofing or water proofing.

Art: "I propose to expand the tax base of capital gains to include certain works of art," the Finance Minister said pithily, but mysteriously. Given that some art funds have been launched of late, their effective returns to investors may be affected.

Dividend: Sure, the shareholder doesn't pay any tax on dividends, but the company paying out does. The Finance Minister has not just upped dividend distribution tax from 12.5 to 15 per cent, but in the case of money market mutual funds and liquid funds, increased it to 25 per cent. Investors are going to howl.



Budget at a glance

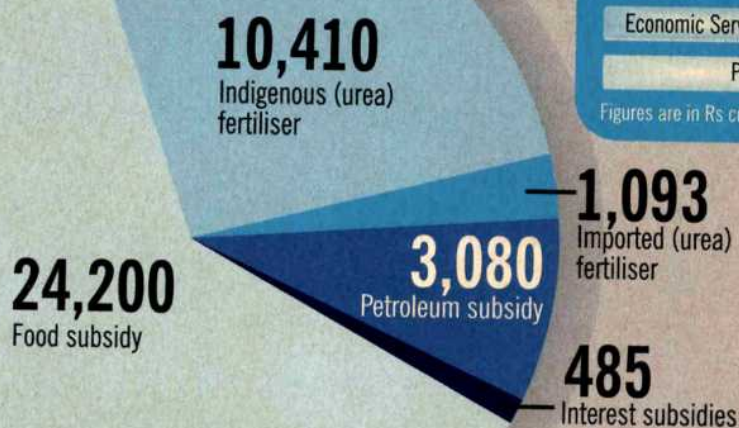
FRBM TARGETS

Buoyant tax collections in 2006-07 have allowed the government to further reduce the fiscal deficit and revenue deficit targets for financial year 2007 to 3.3 per cent of GDP and 1.5 per cent of GDP, respectively.

NON-PLAN EXPENDITURE

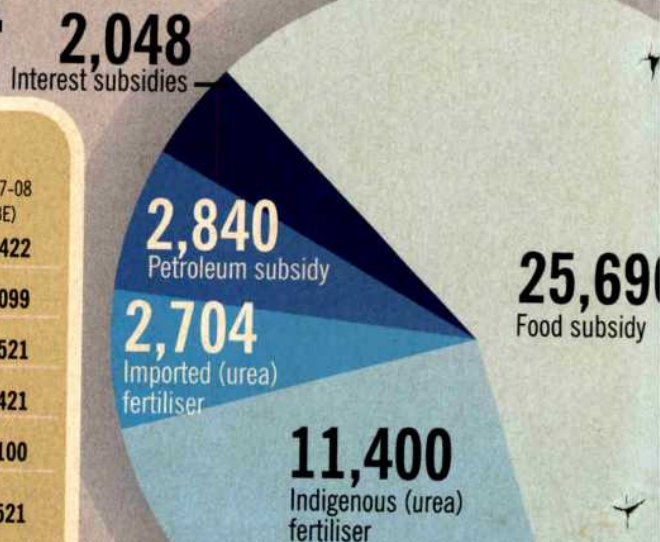
	2005-06		2006-07		2007-08
	(BE)	(RE)	(BE)	(RE)	(BE)
Interest Payments	1,33,945	1,30,032	1,39,823	1,46,192	1,58,995
Defence	83,000	81,700	89,000	86,000	96,000
Subsidies	47,432	46,874	46,213	53,463	54,330
Pensions	19,542	20,232	21,312	22,225	23,488
Economic Services	13,413	13,655	12,862	13,864	15,701
Police	12,237	12,593	13,682	13,911	13,939

Figures are in Rs crore BE: Budget estimate RE: Revised estimate



THE SUBSIDY BILL

2007-08 BE
Figures are in Rs crore



THE BIG PICTURE

	2005-06		2006-07		2007-08
	(BE)	(RE)	(BE)	(RE)	(BE)
Revenue Receipts	3,51,200	3,48,474	4,03,465	4,23,331	4,86,422
Capital Receipts	1,63,144	1,60,231	1,60,526	1,58,306	1,94,099
Total Receipts	5,14,344	5,08,705	5,63,991	5,81,637	6,80,521
Non-Plan Expenditure	3,70,847	3,64,914	3,91,263	4,08,907	4,75,421
Plan Expenditure	1,43,497	1,43,791	1,72,728	1,72,730	2,05,100
Total Expenditure (Plan + Non-plan)	5,14,344	5,08,705	5,63,991	5,81,637	6,80,521
Revenue Deficit	95,312	91,821	84,727	83,436	71,478
Fiscal Deficit	1,51,144	1,46,175	1,48,686	1,52,328	1,50,948

Figures are in Rs crore BE: Budget estimate RE: Revised estimate



CUSTOMS AND EXCISE DUTY STRUCTURE

Peak rate customs duty on non-agricultural products reduced from 12.5 per cent to 10 per cent

Duty on polyester fibres and yarn reduced from 10 per cent to 7.5 per cent

Duty cut from 10 per cent to 7.5 per cent on cut and polished diamonds

Duty on sunflower oil reduced by 15 per cent; also crude and refined edible oils exempted from countervailing duty

Duty on import of medical equipment reduced to 7.5 per cent

Duty of Rs 300 per metric tonne levied on export of iron ores and concentrates

Ad valorem component of excise duty on petrol and diesel brought down to 6 per cent from 8 per cent

Exemption limit for small-scale industries raised to Rs 1.5 crore from Rs 1 crore

Excise duty reduced to Rs 350 per metric tonne from Rs 400 per metric tonne on cement sold at not more than Rs 190 per bag. Duty raised to Rs 600 per metric tonne for those selling at higher than Rs 190 per bag.

5 per cent duty hiked on cigarettes

NON-TAX REVENUES

	2005-06		2006-07		2007-08
	(BE)	(RE)	(BE)	(RE)	(BE)
Interest Receipts	25,500	21,245	19,263	20,131	19,308
Dividend and Profits	23,500	25,481	27,500	30,438	33,925
External Grants	3,218	3,019	2,616	2,469	2,135
Other Non-tax Revenues	24,787	23,837	26,071	23,598	26,471
Total Non-tax Revenues	77,734	74,335	76,260	77,360	82,550

Figures are in Rs crore BE: Budget estimate RE: Revised estimate

TAX PROPOSALS FOR INDIVIDUALS AND COMPANIES

Personal income tax exemption limit raised to Rs 1,10,000

Income tax exemption limit for women hiked to Rs 1,45,000

Personal tax exemption for senior citizens hiked to Rs 1,95,000

No change in service tax rate

No change in CENVAT rate

1 per cent cess on all taxes to fund secondary education

ESOPs to be brought under FBT

Dividend distribution tax hiked from 12.5 per cent to 15 per cent

Tax rate hiked to 25 per cent on dividends paid by money market mutual funds and liquid mutual funds

Surcharge on corporate tax with income of Rs 1 crore or less removed

Cash transactions up to Rs 50,000 exempted from levy

Five-year tax holiday for two-star, three-star, four-star hotels and convention centres with a seating capacity of 3,000 in NCT of Delhi, Gurgaon, Ghaziabad, Faridabad and Gautam Buddha Nagar for Commonwealth Games.

Rs 24,603 cr
2007-08

Rs 18,696 cr
2006-07

Bharat Nirman

REVENUE RECEIPTS

	2005-06		2006-07		2007-08
	(BE)	(RE)	(BE)	(RE)	(BE)
Excise Duty	1,21,533	1,12,000	1,19,000	1,17,266	1,30,220
Customs Duty	53,182	64,215	77,066	81,800	98,770
Corporation Tax	1,10,573	1,03,573	1,33,010	1,46,497	1,68,401
Income Tax	66,239	66,239	77,409	82,510	98,774
Service Tax	17,500	23,000	34,500	38,169	50,200
Taxes of Union Territories	733	849	903	1,341	1,442
Net Tax Revenue	2,73,466	2,74,139	3,27,205	3,45,971	4,03,872

Figures are in Rs crore BE: Budget estimate RE: Revised estimate

DEVELOPMENTAL PROGRAMMES

Finance Minister has intensified the thrust on Bharat Nirman and the eight flagship social sector programmes of the UPA government. Chidambaram has increased budgetary allocation for Bharat Nirman by 31.6 per cent to Rs 24,603 crore. For education it has been increased by 34.2 per cent to Rs 32,352 crore and for health and family welfare by 21.9 per cent to Rs 15,291 crore.

AGRICULTURAL SECTOR

Focus remains on doubling the farm credit. Rs 2,25,000 crore has been earmarked in 2007-08. To provide extra income to farmers milch animals will be provided. An additional sum of Rs 153 crore has been allotted. Rs 500 crore provided under the National Agricultural Insurance Scheme.

The total allocation for the programmes—Sarva Siksha Abhiyan, Mid-day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Programme, National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Urban Renewal Mission—has been raised marginally from Rs 50,015 crore to Rs 56,494 crore.

**EIGHT
DEVELOPMENTAL
PROGRAMMES OF
UPA GOVERNMENT**

2006-07: Rs 50,015 crore

2007-08: Rs 56,494 crore



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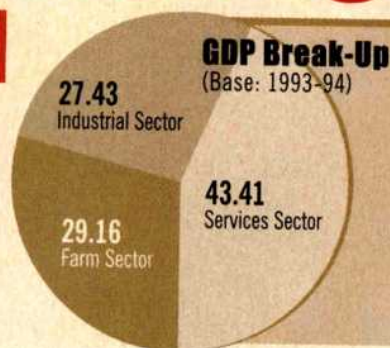


PC through the Years

1996-97

BUDGET THRUST AREAS

To keep fiscal deficit at 5 per cent of GDP and revenue deficit at 2.5 per cent of GDP. Focus was on improving agricultural growth as growth in crop production had dipped to 0.9 per cent in 1995-96. Also to increase investment in infrastructure.



Real Economy

GDP Rs **12,43,546**
GDP Growth **7.5** per cent

CROP PRODUCTION **199.4** million tonnes

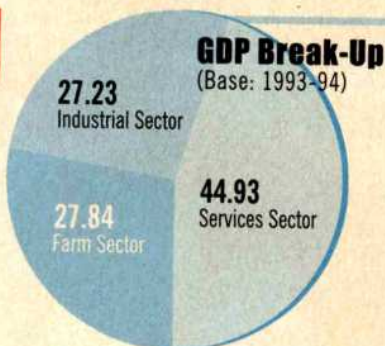
GROSS SAVINGS **23.19** per cent of GDP

SUBSIDIES AS % OF EXPENDITURE **7** per cent

1997-98

BUDGET THRUST AREAS

To reduce fiscal deficit further. To contain growth of money supply within 16 per cent. Further liberalisation of import policy for essential commodities.



Real Economy

GDP Rs **13,90,148**
GDP Growth **4.8** per cent

CROP PRODUCTION **192.26** million tonnes

GROSS SAVINGS **23.13** per cent of GDP

SUBSIDIES AS % OF EXPENDITURE **7.8** per cent

2004-05

BUDGET THRUST AREAS

To maintain GDP growth rate of 7-8 per cent. To provide universal access to education and health. A 100-day job plan for the main breadwinner of the family at minimum wage rate was launched. Food-for-work programme was announced.



Real Economy

GDP Rs **28,43,897**
GDP Growth **7.5** per cent

CROP PRODUCTION **198.36** million tonnes

GROSS SAVINGS **29.1** per cent of GDP

SUBSIDIES AS % OF EXPENDITURE **8.8** per cent

2005-06

BUDGET THRUST AREAS

To maintain a growth rate of 7-8 per cent. To promote investment, to generate employment, to accelerate fiscal consolidation and to focus on agriculture, manufacturing and infrastructure.



Real Economy

GDP Rs **32,09,397**
GDP Growth **8.43** per cent

CROP PRODUCTION **208.3** million tonnes

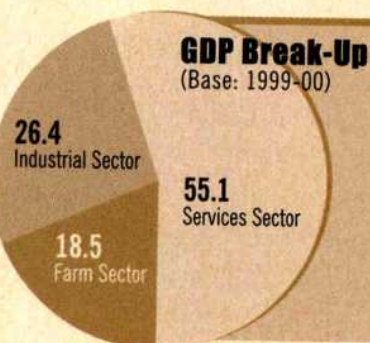
GROSS SAVINGS **32.4** per cent of GDP

SUBSIDIES AS % OF EXPENDITURE **9.2** per cent

2006-07

BUDGET THRUST AREAS

To meet FRBM target of reducing at least by 0.3 percentage points fiscal deficit and by 0.5 percentage points revenue deficit annually. Target for revenue deficit of 2.1 per cent of GDP and fiscal deficit of 3.8 per cent of GDP are in line with FRBM.



Real Economy

GDP **NA**
GDP Growth **9.2** per cent

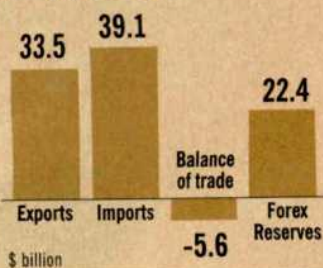
CROP PRODUCTION **209.2** million tonnes

GROSS SAVINGS **NA**

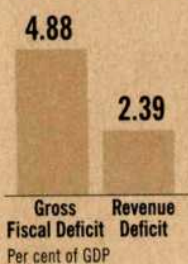
SUBSIDIES AS % OF EXPENDITURE **8.2** per cent

A look at Finance Minister P. Chidambaram's previous five budgets.

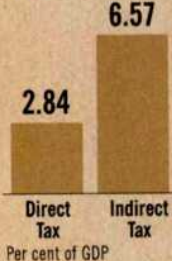
BOP Details



Deficit Trends



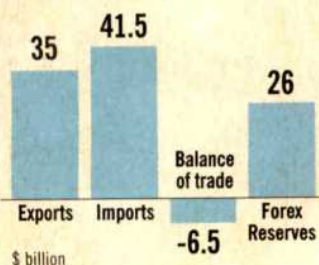
Tax



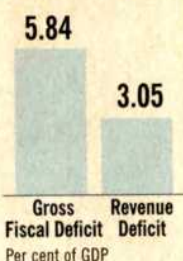
POLICY MEASURES: FM allotted an additional Rs 2,500 crore for financing rural infrastructure through the RIDF (Rural Infrastructure Development Fund). Income tax reform was initiated. Tax rate for the first bracket was reduced from 20 per cent to 15 per cent. Minimum Alternative Tax was introduced. Custom duty on crude oil was reduced from 35 per cent to 25 per cent.

CAUSE FOR CONCERN: Tax revenue fell to Rs 97,212 against budgeted estimate of Rs 97,310.

BOP Details



Deficit Trends



Tax



POLICY MEASURES: Income tax slabs simplified and were replaced with new rates of 10, 20 and 30 per cent. The limit of aggregate investment in a company by FIs, NRIs and NRI-OCBs was raised to 30 per cent from 24 per cent. 7.5 per cent surcharge on corporates was abolished.

CAUSE FOR CONCERN: Total revenue receipts witnessed a sharp fall. Government collected Rs 1,38,514 crore against a budgeted estimate of Rs 1,53,143 crore.

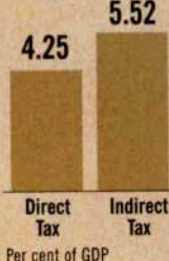
BOP Details



Deficit Trends



Tax



POLICY MEASURES: FDI was raised in telecommunications from 49 per cent to 74 per cent, in civil aviation from 40 per cent to 49 per cent, in Insurance from 26 per cent to 49 per cent. An individual with a taxable income of Rs 1,00,000 was exempted from paying income tax. Excise duty on computers was abolished. Service tax was raised to 10 per cent.

CAUSE FOR CONCERN: Inflation touched a high of 8.7 per cent on August 28, 2004. Subsidy bill rose to Rs 46,514 crore.

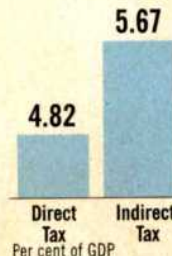
BOP Details



Deficit Trends



Tax



POLICY MEASURES: VAT was launched in April 2005. Peak rate of custom duty for non-agricultural products was reduced from 20 per cent to 15 per cent. Cess on petrol and diesel was increased by 50 paise per litre to finance the National Highways Development Project. National Rural Employment Guarantee Scheme was also introduced.

CAUSE FOR CONCERN: Total revenue receipts were Rs 3,48,474 crore, whereas budget estimate was Rs 3,51,200 crore.

BOP Details

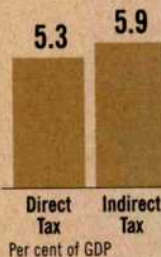
Up to Dec. 2006



Deficit Trends



Tax



POLICY MEASURES: Limit on FII investment in G-Secs was increased from \$1.75 billion to \$2 billion. FII investment cap in corporate debt was hiked from \$0.5 billion to \$1.5 billion. Peak custom duty for non-agricultural products was cut to 12.5 per cent. Excise duty on small cars was cut to 16 per cent from 24 per cent.

CAUSE FOR CONCERN: Economy's reeling under high rate of inflation. It was 6.73 per cent in the first week of February, vis-à-vis 4.02 per cent on February 11, 2006.

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